

# Select Committee on Pension Policy

P.O. Box 40914  
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**November 18, 2003**  
9:30 AM - 12:30 PM  
Senate Hearing Room 4, Olympia

## AGENDA

### Work Session

- 9:30 AM (1) **Introduction of New Staff**  
– Matt Smith, State Actuary
- 9:40 AM (2) **Post-retirement Employment Report**  
– Bob Baker, Senior Research Analyst
- 10:00 AM (3) **Extended School Year Post-retirement Employment** – Bob Baker
- 10:10 AM (4) **Recovery of Lost Purchasing Power**  
– Bob Baker

10:45 AM **BREAK**

### Public Hearing

- 11:00 AM (5) **Public Safety Subcommittee Report**  
Representatives Alexander and Fromhold
- 11:15 AM (6) **LEOFF 1 Survivor Benefits** – Bob Baker
- 11:30 AM (7) **Mandatory Retirement Age in State Patrol, 60 to 65** – Laura Harper, Sr. Research Analyst-- Legal

### Public Hearing/Possible Executive Session

- 11:45 AM (8) **State Patrol Death-in-Service Survivor Benefit**  
– Bob Baker
- Noon (9) **Age 66 COLA** – Laura Harper

### Possible Executive Session

- 12:15 PM (10) **Plan 3 Vesting** – Laura Harper
- 12:30 PM (11) **Adjourn**

**Representative Gary Alexander**

**Elaine M. Banks**  
TRS Retirees

**Marty Brown, Director**  
Office of Financial Management

**Senator Don Carlson**

**John Charles, Director\***  
Department of Retirement Systems

**Representative Steve Conway\***  
Chair

**Richard Ford**  
PERS Retirees

**Senator Karen Fraser**

**Representative Bill Fromhold**

**Leland A. Goeke\***  
TRS and SERS Employers

**Bob Keller**  
PERS Actives

**Corky Mattingly**  
PERS Employers

**Doug Miller**  
PERS Employers

**Glenn Olson**  
PERS Employers

**Representative Cheryl Pflug**

**Diane Rae**  
TRS Actives

**Senator Debbie Regala**

**J. Pat Thompson\***  
PERS Actives

**David Westberg**  
SERS Actives

**Senator Shirley Winsley\***  
Vice Chair

**\*Executive Committee**

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# Select Committee on Pension Policy - 2003

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**Senator Shirley Winsley**

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# Select Committee on Pension Policy

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## DRAFT MINUTES

October 21, 2003

The Select Committee on Pension Policy met in Senate Hearing Room 4, Olympia, Washington, on October 21, 2003.

Committee members attending:

|                              |                             |
|------------------------------|-----------------------------|
| Representative Alexander     | Leland A. Goeke             |
| Elaine Banks                 | Bob Keller                  |
| Marty Brown                  | Corky Mattingly             |
| Senator Carlson              | Doug Miller                 |
| John Charles                 | Glenn Olson                 |
| Representative Conway, Chair | Representative Pflug        |
| Richard Ford                 | Diane Rae                   |
| Senator Fraser               | David Westberg              |
| Representative Fromhold      | Senator Winsley, Vice Chair |

Representative Conway called the meeting to order at 10:15 AM.

### (1) PERS Public Safety Subcommittee Report

Representatives Alexander and Fromhold, co-chairs, reported on the status of the PERS Public Safety Subcommittee. A Subcommittee public hearing was held on October 6, 2003. There will be a recommendation presented at the November 18, 2003 meeting.

### (2) Post-retirement Employment Report

Bob Baker, Senior Research Analyst, presented the "Post-retirement Employment Report."

The following people testified on the Agency Program Impacts:

*Chris Rose* - Governor's Executive Policy Office

*Dennis Martin* - Health Care Authority

*Jeff Wickman* - Department of Retirement Systems

*Megan Atkinson* - Office of the Superintendent of Public

Instruction

### (3) Projected Rates and Funding

Matt Smith, State Actuary, presented the report entitled, "Projected Rates and Funding."

**Representative Gary Alexander**

**Elaine M. Banks**  
TRS Retirees

**Marty Brown, Director**  
Office of Financial Management

**Senator Don Carlson**

**John Charles, Director\***  
Department of Retirement Systems

**Representative Steve Conway\***  
Chair

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Vice Chair

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**(4) State Investment Board**

Gary Bruebaker, Chief Investment Officer, State Investment Board, presented the report entitled, "Washington State Investment Board."

**(5) Plan 3 Vesting**

Robert Baker, Senior Research Analyst, presented the report entitled, "Plan 3 Vesting."

The following people testified:

*Lynn Maier* - Washington Public Employees Association

*Jan Leth* - Washington Education Association - Retired

*Randy Parr* - Washington Education Association

*Cassandra de la Rosa* - Retired Public Employees Coalition

*Bob Woolley* - private citizen

The meeting adjourned at 12:40 PM.

# Select Committee on Pension Policy

## Post-Retirement Employment Report

*(November 12, 2003)*

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**Issue** Finalizing the Post-Retirement Employment Report and forwarding it to the fiscal committees.

**Staff** Robert Wm. Baker (360) 586-9237

### Reporting Process

1. OSA will present an initial draft of the report to the SCPP at the September 2003 committee meeting. The initial draft will contain an analysis of the fiscal impact of the act based on the data received thus far. The initial draft will also include a brief history and policy background for the subsequent policy impact discussion.
2. Based on the fiscal analysis and impact reported by the State Actuary, the SCPP will determine whether a proposal for a process to charge employers prospectively for any increased costs to the affected retirement systems is necessary.
3. At the October 2003 committee meeting, the SCPP will solicit information from the public and from the Office of the Superintendent of Public Instruction, Department of Personnel, Office of Financial Management, Department of Retirement Systems, and the Health Care Authority regarding the program impacts of this act.
4. Based on this input, the SCPP will prepare a final report for the legislative fiscal committees which may include any proposed changes to the act.

### **Options**

1. Charge individual employers an additional 6% of pay, the member contribution rate, for each year a TRS 1 employer hires a TRS 1 retiree for more than 840 hours. The additional employer charge will stop once the rehired retiree reaches age 60 (the latest normal retirement age of the plan).
2. Defer a proposal to charge individual employers until further data and study is available.
3. Do not charge individual employers, but allow the exact increase in costs to emerge in the TRS 1 unfunded actuarial accrued liability that is paid by all TRS employers.

### **Executive Committee Recommendation**



**RECEIVED**

**NOV 12 2003**

STATE OF WASHINGTON  
**DEPARTMENT OF PERSONNEL**

Office of  
The State Actuary

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November 6, 2003

The Honorable Steve Conway, Chair  
The Honorable Shirley Winsley, Vice Chair  
Select Committee on Pension Policy  
2420 Bristol Court SW, Suite 101  
P.O. Box 40914  
Olympia, Washington 98504-0914

Dear Representative Conway and Senator Winsley:

Thank you for the opportunity to comment on the Select Committee on Pension Policy's recent report on post-retirement employment provisions. It appears there was some confusion as to our agency's representation at your last meeting and we hope this letter will clarify our input.

The Department of Personnel primarily provides human resource assistance relating to classified employees in state agencies and institutions of higher education. The vast majority of those employees are in the Public Employees' Retirement System.

We are very supportive of giving state managers the flexibility to hire the right person for the right job, including the ability to hire retirees appropriately. The utilization of post-retirement employment since the mid-1960s has been an advantage to managers in meeting agency missions.

Administrative support for implementing the last several changes to the post-retirement employment statutes has not represented a significant draw on our agency's resources.

If you would like any additional information or have questions, staff will be available at your November 18 meeting.

Sincerely,

Gene Matt  
Director





## Select Committee on Pension Policy

# Preliminary Post-Retirement Employment Report September 2003

*Fiscal and Policy Implications of:*  
**Chapter 10, Laws of 2001, 2<sup>nd</sup> Special Session**  
**(ESSB 5937)**

***Prepared by:***  
**Matthew M. Smith, State Actuary**  
**Robert Wm. Baker, Sr. Research Analyst**

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# Background:

In 2001, Washington State pension law was changed by expanding post-retirement employment opportunities for plan 1 of the Teachers' Retirement System (TRS 1) and for plan 1 of the Public Employees' Retirement System (PERS 1).

In response to a critical shortage of experienced teachers and other employees with skills that were in high demand, the limitation on the number of hours that a retiree can work in PERS 1 and TRS 1 was expanded to 1,500 per year (before suspension of the retirement benefit). The effective date of the law change was July 1, 2001.

The law also called for a study of the fiscal and policy impacts of the expanded post-retirement program.

**Study Mandate:** *The office of the state actuary shall review the actuarial impact of the temporary expansion of the post-retirement employment limitations provided by sections 3 and 4 of this act. No later than July 1, 2003, the state actuary shall prepare a report for the joint committee on pension policy regarding the fiscal and policy impacts of this act.*

*The joint committee shall solicit information from the superintendent of public instruction, the department of personnel, the office of financial management, the department of retirement systems, and the health care authority regarding the program impacts of this act and shall report to the legislative fiscal committees no later than October 1, 2003, on any proposed changes or improvements to this act.*

*If the state actuary determines the expansion of post-retirement options under sections 3 and 4 of this act has resulted in increased costs for the state retirement funds, the joint committee report shall include a proposal for a process to charge those employers who employ retirees pursuant to an extension of sections 3 and 4 of this act for the costs incurred by the retirement funds under the extension. (Ch. 10, L of 01, 2<sup>nd</sup> sp. sess.)*

**Revised Study Mandate:** Sections 5 and 6 of the bill that mandated this study were vetoed. As a result, the sunset date in 2004 that would have terminated the expansion of the post-retirement employment limitations was removed.

**Further Program Changes in 2003:** Chapter 412, Laws of 2003, made further changes to the post-retirement employment provisions. Of most significance to this study, the law placed new standards and procedures for the future employment of PERS 1 retirees. Specifically, the law created a lifetime limit on the number of hours a PERS 1 retiree may work after being rehired by a PERS eligible employer before suspension of their retirement benefit.

**Joint Committee Replaced with the Select Committee on Pension Policy:** Also during the 2003 Legislative Session, SHB 1204 (Chapter 295, Laws of 2003) was adopted. This law replaced the Joint Committee on Pension Policy (JCPP) with the Select Committee on Pension Policy (SCPP). The law enacting the mandate for this study was not revised to reflect the replacement of the JCPP. We have assumed that the duties and responsibilities of the original study mandate have transferred from the JCPP to the SCPP.

**Proposed Reporting Process:** In order to satisfy the study mandate, the Office of the State Actuary (OSA) proposed the following reporting process:

1. *OSA will present an initial draft of the report to the SCPP at the September 2003 committee meeting. The initial draft will contain an analysis of the fiscal impact of the act based on the data received thus far. The initial draft will also include a brief history and policy background for the subsequent policy impact discussion.*
2. *Based on the fiscal analysis and impact reported by the State Actuary, the SCPP will determine whether a proposal for a process to charge employers prospectively for any increased costs to the affected retirement systems is necessary.*
3. *At the October 2003 committee meeting, the SCPP will solicit information from the public and from the Office of the Superintendent of Public Instruction, Department of Personnel, Office of Financial Management, Department of Retirement Systems, and the Health Care Authority regarding the program impacts of this act.*
4. *Based on this input, the SCPP will prepare a final report for the legislative fiscal committees which may include any proposed changes to the act.*

## Fiscal Impact:

### Background

According to the study mandate, the state actuary shall determine if the expansion of post-retirement employment options under this act has resulted in increased costs for the state retirement systems. If so, the SCPP shall propose a process to charge those employers who employ retirees for the costs incurred by the retirement funds due to the extension.

**Data Used in Analysis:** The Department of Retirement Systems (DRS) provided quarterly files of rehired PERS and TRS retirees since the effective date of the law change (July 1, 2001). Principle data elements provided by DRS included the following:

- counts of PERS and TRS retirees
- hours worked
- salary
- date retired
- date rehired; and
- occupational information (TRS only).

Annual valuation data from the Office of the State Actuary was also used in the analysis. **Note: These data have not been audited.**

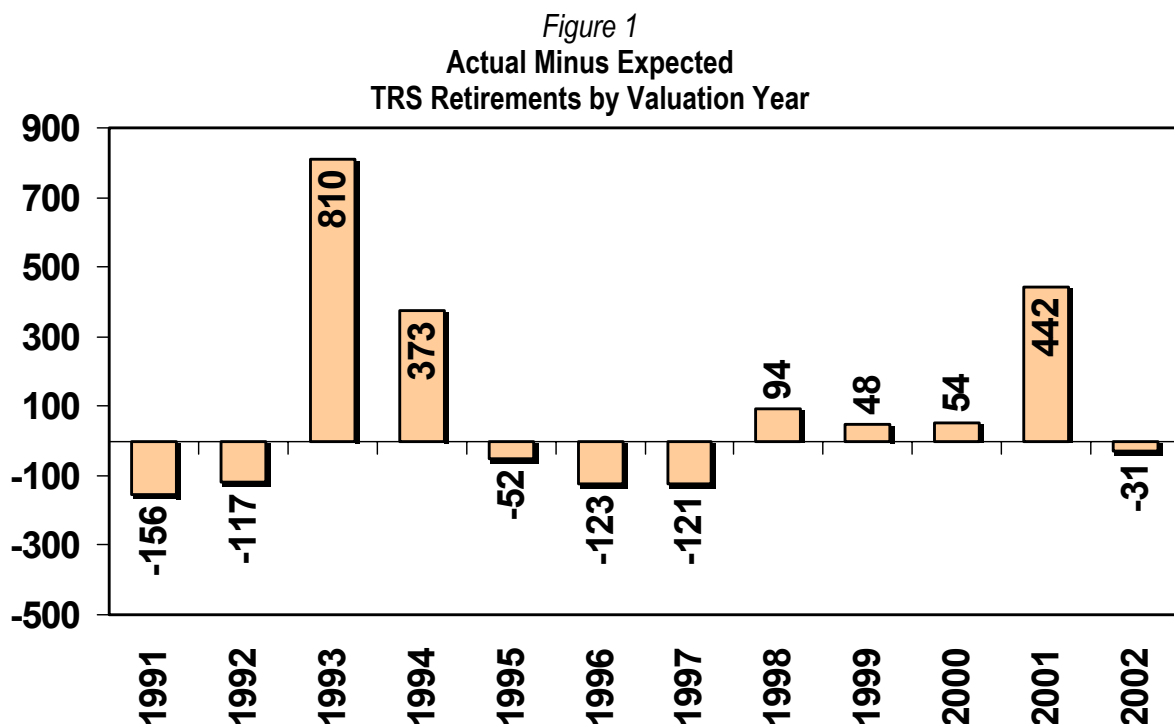
## Actuarial Impact/Analysis

The extension of the number of hours a PERS 1 or TRS 1 retiree may work is not a direct benefit enhancement. In other words, it does not represent an immediate and easily measurable increase in the plan's retirement liability (like an increase in the retirement benefit formula or an increase in the plan's COLA).

Unlike a standard benefit enhancement, the actuarial impact of this program, if any, would surface through a significant increase in the number retirements over what is assumed under normal long-term plan experience. Retirements that were assumed and funded to occur at a later date, on average, would occur earlier. As a result, retirement benefits would be paid sooner than assumed and there would also be a loss of the member's contributions to the trust fund for the period of earlier retirement. PERS 1 and TRS 1 employers who employ retirees for more than the previous annual hourly limits are currently required to make employer contributions for the entire year, so there is no loss of employer contributions.

The cost of earlier retirement (i.e., longer payout) and loss of the member's future contributions outweigh the savings that result from a benefit based on a lower average final compensation and fewer years of service (from earlier retirement). Additionally, there would be limited savings of lower service in the retirement benefit from the earlier retirement of members with 30 or more years of service since the benefit formula in PERS 1 and TRS 1 is capped at 30 years of service (except for the Uniform COLA).

**TRS Experience Data:** The following Figure demonstrates the number of actual retirements as compared to the number of assumed retirements in TRS 1 during the 1991 through 2002 valuation plan years.



You will note a downturn in the number of actual retirements in 1991 and 1992. This may have been due to the economic downturn during the period. The large surge in actual retirements during 1993 and 1994 was due to early retirement windows enacted by the Legislature. These windows tend to suppress the number of actual retirements in subsequent years. There also appears to be a significant spike in the number of retirements during 2001 (442 more actual retirements than assumed for the period); the first year of the expanded post-retirement provisions. Care must be used in analyzing these data because of changes in valuation year end dates; 2001 captures more than 1 year of retirements, both actual and expected.

**PERS Experience Data:** Chapter 412, Laws of 2003, made further changes to the law. Of most significance to this study, the law placed new standards and procedures for the future employment of PERS 1 retirees. Specifically, the law created a lifetime limit on the number of hours a PERS 1 retiree may work after being rehired by a PERS eligible employer before suspension of their retirement benefit. This law change became effective on July 27, 2003.

The new lifetime hours limit will likely change the behavior of future PERS 1 retirees and current PERS 1 retirees that are currently employed in eligible PERS positions. We do not have data available on retirements since the effective date of the law change for PERS 1. As a result, there are insufficient data to determine the actuarial impact of the expanded program on PERS 1 at this time.

**Normal Volatility:** As noted earlier in this report, from the 2000 valuation to the 2001 valuation date, TRS 1 experienced an excess of 442 retirements over what was assumed for those eligible to retire during that period. 2001 was the first year of the expanded post-retirement employment provisions.

Actuarial assumptions are based on long-term experience periods and are not employed nor anticipated to fit actual experience exactly for an annual period. Under a reasonable set of retirement assumptions, one would expect that the total number of actual retirements would more closely resemble the expected number of retirements over longer-term experience periods (say 5 to 10 years) in aggregate.

So, with this in mind, how much of this deviation in 2001 was due to normal volatility in annual retirement experience? One simple statistical approach to this question is to review the variance and standard deviation of the annual retirement experience. In this context, these statistics measure the deviation of the extra/fewer number of annual retirements from the average number of annual extra/fewer retirements over the sample period.

This calculation is developed in the following table:

*Figure 2*  
**Standard Deviation Analysis**  
**Actual and Expected TRS 1 Retirement Experience**

|           |                               | Actual | Actual * | Expected | Actual* minus<br>Expected |
|-----------|-------------------------------|--------|----------|----------|---------------------------|
| 7/1/1990  | – 6/30/1991                   | 903    | 903      | 1,059    | -156                      |
| 7/1/1991  | – 6/30/1992                   | 911    | 911      | 1,028    | -117                      |
| 7/1/1992  | – 6/30/1993                   | 1,893  | 1,083    | 1,083    | 0                         |
| 7/1/1993  | – 6/30/1994                   | 1,422  | 1,211    | 1,049    | 162                       |
| 7/1/1994  | – 6/30/1995                   | 1,051  | 1,288    | 1,103    | 185                       |
| 7/1/1995  | – 6/30/1996                   | 1,003  | 1,240    | 1,126    | 114                       |
| 7/1/1996  | – 6/30/1997                   | 1,028  | 1,265    | 1,149    | 116                       |
| 7/1/1997  | – 6/30/1998                   | 1,331  | 1,568    | 1,237    | 331                       |
| 7/1/1998  | – 6/30/1999                   | 1,359  | 1,434    | 1,311    | 123                       |
| 7/1/1999  | – 6/30/2000                   | 1,452  | 1,452    | 1,398    | 54                        |
|           | – <b>Standard Deviation**</b> |        |          |          | <b>159</b>                |
| 7/1/2000  | – 9/30/2001                   | 3,042  |          | 2,600    | 442                       |
| 10/1/2001 | – 9/30/2002                   | 1,426  |          | 1,457    | -31                       |

\*The extra retirements in 1992 and 1993 due to the early retirement windows were evenly distributed over the subsequent five years. The 2001 and 2002 plan years were excluded from the sample. Because of changes in the valuation year end date, data for 2001 include more than 1 year for actual and expected retirements.

\*\*Based on a population mean value of zero.

The 442 extra retirements during the 2001 valuation period represent the number of extra retirements from July 1, 2000 through September 30, 2001. Since most TRS 1 members retire effective July 1<sup>st</sup>, this period represents nearly two years of retirement experience (both actual and expected). The 442 extra retirements during the period is equivalent to a rate of 237 extra retirements per year over the period. This is equivalent to about 1.5 standard deviations from the mean.

**Causal Relationship:** There are numerous factors that influence an individual's decision to retire. Could the opportunity to work up to 1,500 hours during retirement provide an incentive for TRS 1 members to retire earlier than they otherwise would have and return to work? Yes. Could this expanded opportunity provide a stronger incentive for TRS 1 members with 30 or more years of service to retire earlier? This seems quite possible since the TRS 1 benefit formula is capped at 30 years of service. There are certainly additional factors that may provide a similar incentive. Furthermore, TRS 1 members are not guaranteed post-retirement employment in their former positions.

Unfortunately, there are insufficient data to determine the direct cause for the increase in TRS 1 retirements during 2001. Therefore, we cannot determine the true causal relationship for the increase in retirements. That being said, it does not eliminate the possibility that the increase was due, at least in part, to the expansion in the post-retirement employment provisions. Any increase in the actual number of retirements, over what is assumed, will represent an increase in the TRS 1 retirement liability if the trend were to continue in the future.

**Limited Experience Period:** How much data are needed to determine if a new trend has been established? Typically, actuaries study retirement plan experience every 5 to 6 years and adjust long-term retirement assumptions based on actual retirement experience over a 5 to 6 year consecutive period for a significant-sized cohort that is eligible to retire.

Substantial changes in plan provisions, like the expansion of the post-retirement employment provisions for TRS 1, may warrant an adjustment to the plan's retirement assumptions sooner than the 5 to 6 year experience study cycle. Under such circumstances, an actuary must use their professional judgment when determining whether an adjustment is necessary and, if so, how much credibility or weight to place on any emerging deviation in plan experience. Such an adjustment would allow the plan sponsor and covered employers to pre-fund any increase in plan liability. This funding approach, however, would charge all employers, whether they employ retirees for extended periods or not.

**Actuarial Cost Characteristics:** The direct cause of an earlier retirement is not easy to ascertain. The cost of an extra or earlier retirement, however, is a relatively standard actuarial calculation. The dollar cost is the actual retirement liability minus the expected retirement liability (actual minus expected). The expected liability would include projected future salary and service accruals plus the probability of future retirement at each age in the future. The actual liability reflects the liability of an immediate retirement based on salary and service at the valuation date.

Figure 3 displays the cost of earlier retirement for the 527 TRS 1 members that retired and rehired for more than 840 hours per year during the study (about two years of TRS 1 retirement experience). 840 hours was the former annual limit on the number of hours before suspension of the retirement benefit in TRS 1.

Figure 3  
**Actual Minus Expected Liability**  
**TRS 1 Retirees Working over the Post-retirement Employment Limits**

|   |            | <b>Over 840<br/>Hours</b> |
|---|------------|---------------------------|
| <b>Count</b>  |            | 527                       |
| <b>Present Value of Fully Projected Benefits</b> ( <i>\$ in thousands</i> ) |            |                           |
| 100% Retired  | – Actual   | \$218,979                 |
| Remain Active   | – Expected | \$180,420                 |
| Difference  |            | \$ 38,559                 |
| <b>-- A v e r a g e s --</b>  |            |                           |
| <b>Present Value of Fully Projected Benefits</b>                            |            |                           |
| 100% Retired  | – Actual   | \$415,519                 |
| Remain Active   | – Expected | \$342,354                 |
| Difference  |            | \$ 73,165                 |
| <b>Difference as % of Expected Salary</b>                                   |            | 31%                       |
| <b>Annual Salary</b>  |            | \$ 63,319                 |
| <b>Service</b>  |            | 31                        |
| <b>Age</b>  |            | 55                        |

The average cost per person is about \$73,000. This represents a cost of about 30% of pay, per retiree, for each year of earlier retirement (about 2.5 to 3 years on average in this sample).

This analysis of the cost characteristics in this section is limited by the availability of only 15 months of experience. Further study with additional years of data will increase the confidence and significance of the analysis. The cost of an earlier retirement, however, is a relatively stable percentage of pay for each year of earlier retirement.

## **Conclusion – Actuarial Analysis**

Based on the above analysis, the state actuary has determined that the expanded post-retirement provisions of Chapter 10, Laws of 2001, 2nd special session, has resulted in increased costs for TRS 1. The exact cost to TRS 1, however, is not easily measurable with a high degree of accuracy or confidence. These limitations do not eliminate the presence or possibility of a cost to the plan.

Due to recent changes to the original retiree law affecting PERS 1, there are insufficient data to determine the actuarial impact of the expanded program on PERS 1 at this time.

Initial actuarial analysis suggests that the expanded program has resulted in an apparent increase in the number of actual TRS 1 retirements (as compared to what is assumed and funded through the actuarial valuation). This analysis is limited by availability of only 15 months of experience data and the lack of sufficient data to determine a direct causal link in the increase in TRS 1 retirements to the expansion of the post-retirement provisions.

Preliminary costs for each additional or earlier retirement as a percentage of an individual TRS 1 member's salary for employers hiring TRS 1 retirees for more than 840 hours is approximately 30% for each year a TRS 1 member retires earlier than was assumed in the actuarial valuation (on average). Cost estimates based on group averages that are applied to individual retirees, by definition, will undercharge some employers and overcharge others. Additionally, there is no clear-cut method of determining whether a retiree, on an individual basis, is an extra retirement.

### ***Options:***

1. Charge individual employers an additional 6% of pay, the member contribution rate, for each year a TRS 1 employer hires a TRS 1 retiree for more than 840 hours. The additional employer charge will stop once the rehired retiree reaches age 60 (the latest normal retirement age of the plan).
2. Defer a proposal to charge individual employers until further data and study is available.
3. Do not charge individual employers, but allow the exact increase in costs to emerge in the TRS 1 unfunded actuarial accrued liability that is paid by all TRS employers.

### ***Analysis of Options:***

*Option 1* would recognize a portion of the increase in cost to TRS 1. The additional 6% employer charge is well below the average 30% charge for each year of earlier retirement, but would mitigate the consequences of applying an average rate for extra or earlier retirements to an individual employer. Additionally, the reduced employer charge of 6% recognizes the limited credibility of the preliminary nature of the data and analysis.

*Option 2* would not recognize the increase in cost to TRS 1 (at least, not initially). As a result, the added cost incurred between now and adoption of the final employer charge would roll into the unfunded actuarial liability in TRS 1 and the cost would be amortized at June 30, 2024 as a level percentage of future TRS payroll for all TRS employers. This approach, however, would allow for the collection of additional data and would lead to an eventual employer charge with higher credibility.

*Option 3* does not satisfy the study mandate since it would not result in a charge for only the individual employers that employ TRS 1 retirees for more than 840 hours per year. This approach, however, would eliminate the difficulty of devising a method of determining whether an individual retirement for a single employer has resulted in an extra or earlier retirement.

## SCPP Proposal(s) - Fiscal

Proposal(s) determined in the next reporting phase.

# Policy Implications

## Background

The expansion of rehire opportunities for retirees was to accommodate the human resource needs of public employers -- school districts in particular. Many districts, particularly those in high cost urban areas, had difficulty filling teacher vacancies during the most expansive point in the last business cycle. Because public employers have little flexibility in the use of salary increases to attract job applicants, it was felt that use of pension policy to provide financial incentives for the existing teacher population, particularly recent retirees, would be a reasonable substitute.

**Legislative History:** At their inception, Washington's public retirement plans forbade members from returning to work at an employer within the same retirement plan. Were a retired PERS member to return to work for any PERS employer, their retirement benefits would be suspended until they terminated completely.

These restrictions were applicable to PERS or TRS retirees returning to work for a PERS or TRS employer. Retirees were never under any restriction regarding private employment, working for another state, or opportunities in the Federal government.

- *The 5 month Standard:* In the mid-1960s, the post-retirement employment door was opened. Legislation was passed in 1965 allowing retirees to return to work in ineligible positions -- those requiring 5 months or less work per year.
- *TRS Follows Suit:* That 5-month standard in PERS -- 5/12ths of a year -- carried over to members of TRS as well. However, that 5/12ths was translated into 75 days (5/12ths of 180 days in the school year); as a result, TRS retirees were allowed to return to work for 75 days per school year in substitute positions.



Early on, the 75-day standard for TRS retirees was translated into 525 hours using an average of 7 hours per school day. This hourly measure was more accommodating for secondary school substitutes who might not teach for an entire school day.

In this last business cycle, with labor shortages being felt in most industry sectors, the 525-hour standard for retired teachers returning to work as substitutes was enhanced to 840 hours for school districts that had documented teacher shortages. TRS retirees were allowed to work up to 2/3rds of a school year as a substitute teacher or substitute principal in such a district (7 hour per day × 120 days of the school year = 840 hours). A TRS retiree returning to work as a substitute administrator was allowed to work up to 630 hours in a district where the school district board of directors adopted a resolution declaring that the services of the retiree were necessary because they could not find a replacement administrator to fill the vacancy.

**2001 Legislation:** While the ability of PERS and TRS retirees to return to work had been well established, legislation was passed in 2001 to address several issues. The Joint Committee on Pension Policy (JCPP) wanted to address a PERS return-to-work issue relating to how the 5-month allowance had been interpreted, and they wanted to standardize the 840 hour limit for all TRS retirees returning to work as substitutes in all school districts. The Governor's office wanted to help address the teacher shortage situation by allowing retired teachers to return to work full-time without a suspension of their retirement benefit thus receiving a full salary along with their retirement allowance (see Appendix C).

- *An Hour is a Month:* When the provision was passed allowing PERS retirees to return to work for 5 months, the statute was interpreted to mean that any time worked in a given month would debit that month from the 5-month allowance. For example: if a PERS retiree began work on January 1st, they would be eligible to work full time through the end of May; or if they began work on January 31st they would still only be eligible to work through the end of May. This interpretation allowed a PERS retiree to work on a full-time basis in only monthly increments.
- *An Hour is an Hour:* The JCPP proposed a bill that would allow PERS members to work 867 hours per year. This was a simple translation of the monthly limit into hours (5/12ths × 2080 hours per year). By amending the statute to read in hours, retirees and employers would be given greater flexibility in scheduling; instead of being limited to working full-time for 5 months, retirees would now be able to work part-time schedules for a greater part of the year.
- *2/3rds of a School Year:* The JCPP also forwarded a bill to the legislature increasing the amount of time TRS members could work in post-retirement situations. Formerly, members were limited to 525 hours of work as substitute teachers, or in districts with documented shortages, 630 hours as substitute administrators, or 840 hours as substitute teachers or principals. The JCPP bill proposed standardizing the post-retirement hourly limit to 840 hours for all TRS retirees returning to work as substitutes, be they teachers, administrators, or principals.
- *Coming Back Full Time:* At the same time the JCPP was proposing its legislation, the Governor's office requested legislation allowing TRS retirees to return to work for up to 1,500 hours in a school year. This hourly standard would allow TRS retirees to return to work full time as teachers since no school district had standard contracts requiring more than an 8 hour work day (8 hours per day × 183

contract days = 1,464 hours per contract year). As a result, retirees could return to work and, if they worked the entire school year, receive a full salary along with their full retirement allowance. More importantly, this legislation would also allow TRS retirees to return to work in other than substitute positions.

The 1,500 hour standard was proposed for PERS retirees as well. This would allow PERS retirees to work almost 9 months of the year without their benefit being suspended. As a result, PERS 1 retirees could return to work and, if they worked the full year, receive a full salary and three-quarters of their retirement allowance.

To help alleviate any potential cost of this change, the bill required that employers engaging a retiree for more than 867 hours, the earlier PERS standard, pay employer contributions to the retirement system for the entire time of the retiree's employment.

- *Without Reference:* In an unusual development, both the JCPP bill amending the post-retirement provisions in the TRS chapter (Ch. 317, L of 01, 1<sup>st</sup> sp. sess.) and Ch. 10, L of 01, 2<sup>nd</sup> sp. sess. passed into law in 2001. Since neither bill referenced the other, both were codified. With both provisions codified, legal precedent required that the more advantageous provision apply, thus the 1,500 hour limit became the standard.

The JCPP bill amending the TRS chapter contained language giving the legislature the right to amend or repeal the section assuring that no member has a contractual right to 840 hours per year of post-retirement employment. The governor's request legislation contained similar language, giving the legislature the right to amend or repeal these sections and assuring that no member has a contractual right to more than 525 hours per year of post-retirement employment in TRS or 867 hours in PERS.

**Post 2001 Legislation:** Numerous bills were introduced after the passage of Ch. 10, L of 01, 2<sup>nd</sup> sp. sess. that sought to add provisions that both employers and members would have to follow. These provisions attempted to:

- Forbid the hiring of a retiree if there were four or more qualified applicants for the job. (Did not pass.)
- Increase the separation period after retirement before members could return for the 1,500 hours. (Passed: Increased to 90 days in PERS.)
- Require employers to provide documentation of a shortage before being allowed to hire a retiree. (Passed: Applicable to PERS employers.)
- Require employers to keep human resource records that could be audited to assure they follow existing hiring policies. (Passed: Applicable to PERS employers.)
- Limit the total number of hours a retiree could work beyond the former annual limit. (Passed: limited PERS rehires to 1,900 hours beyond the annual 867 hour limit.)
- Forbid verbal agreements to return to work. (Passed: applicable to PERS.)

# In-Service Distributions

**Verbal Agreements:** The old caveat says that a verbal agreement is as good as the paper its written on. Old caveats die hard. Understanding verbal agreements is important because written agreements to return to work were forbidden, verbal agreements were not. There is considerable difficulty in enforcing any regulation against verbal agreements.

**What Constitutes Separation:** In order to be considered fully separated from their employer, PERS and TRS members must, after the effective date of their retirement, be gone for one calendar month. The effective date of a member's retirement is the first day of the month following the month in which they retired. A PERS member whose last day of employment was June 30th would have a July 1st retirement date. If they wished, they would be eligible to return to work on August 1st.

**What Constitutes Retirement:** The matter of what constitutes retirement arises in the melding of the "return-to-work agreement" issue and the "separation" issue. While this may seem rather academic, it could eventually be a matter effecting state policy and federal policy as well.

All qualified retirement plans, public and private, are governed by Federal statutes. The tax status of retirement plans is based on their adherence to these regulations. The litany of chapter and sub-chapter numbers of the Internal Revenue Code are familiar though not necessarily well understood: 401(a), 401(k), 403(b), 457 and so on. But one of the fundamental regulations governing public defined benefit plans is that no "qualified" retirement plan can provide "in-service distributions;" a member cannot receive their retirement benefit while still working.

With the potential for a verbal return-to-work agreement between an upcoming retiree and their employer, such a member's actual separation may be called into question. If it were determined that such agreements negated the separation of the employee from the employer, that could potentially disqualify a retirement plan allowing such an agreement. A disqualified plan would be subject to significant tax liabilities for the employee and employer.

The IRS does allow a great deal of leeway in their dealings with public retirement plans. Most recently, that leeway has allowed plans to engage in what are called transitional policies; easing members into retirement. This plan modification, however, has little resemblance to a transitional retirement policy; it is more related to personnel policy (filling hard-to-fill positions).

At its extreme, a verbal agreement to return to work may result in questions as to whether such an employee actually separated from their employer, and whether they are retired.

**Other States / Systems:** How do the post-retirement employment provisions in Washington State's public retirement systems compare to other states? Compared to other states', Washington's post-retirement employment provisions appear fairly typical. The following table illustrates the provisions governing post-retirement employment from select state retirement systems – the choice based on the largest systems, neighboring states, and a number of peer states based on population (see Figure 4).

Within this comparison, only Michigan's provision prohibits a member from working after they retire. Other states allow members to work a fixed number of hours for a plan employer after they retire (Calpers, Idaho, Oregon). Others allow a member to earn a fixed amount of salary (CalStrs, New York PERS and TRS). And others allow members to work full time (Kentucky and Texas).

**Figure 4**  
**Rehire Provisions from Select State Retirement Systems**

| <b>State / System</b>          | <b>Post-Retirement Employment Provisions</b>  |
|--------------------------------|---|
| <b>CALPERS</b>                 | May work a maximum of 960 hours   |
| <b>CALSTRS</b>                 | May earn a maximum of \$24,934  |
| <b>Idaho PERSI</b>             | May work less than half time for public employment and less than half time contract for teachers  |
| <b>Kentucky PERS</b>           | May return to a different job in the same retirement system and earn an additional benefit.<br>After age 65 (or 55 for hazardous duty employees), may return to any position and earn an additional benefit if reemployed full-time.  |
| <b>Kentucky TRS</b>            | May return full-time with a different employer after three month separation, or return to the same employer after a one year separation. Pay limited to 75% of last salary and employers limited to using rehires in 4% of positions. |
| <b>Michigan SERS</b>           | Retirement allowance will be suspended for any month for which state wages are paid   |
| <b>New York PERS &amp; TRS</b> | May earn a maximum of \$25,000  |
| <b>Ohio PERS and STRS</b>      | After 2 month separation may return full time but must contribute to a separate annuity.  |
| <b>Oregon PERS</b>             | May work a maximum of 1,039 hours   |
| <b>Texas PERS</b>              | May work full time with no contributions and no added benefit.  |

## Other Rehire Characteristics

**System:** While rehires are found among both PERS and TRS members, the largest number come from the TRS ranks (see Figure 5).

**Figure 5**  
**Rehires by System and**  
**Percent of Total Annuitants**

|                              | PERS  | TRS   |
|------------------------------|-------|-------|
| <b>Total Rehires</b>         | 2,542 | 5,168 |
| <b>Percent of Annuitants</b> | 4.1%  | 15.6% |

Comparing rehires by their ratio to total annuitants results in an even greater incidence of rehire activity by TRS members; some 15.6% of TRS retirees returned to work in a TRS position while 4.1% of PERS retirees returned to a PERS position.

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**Rehire Characteristics Data:** In the following section of the report these data have been arrayed into groupings of members who were:

- **Before Before** -- retired and rehired before the effective date of these changes,
- **Before After** -- retired before and rehired after the changes,
- **After After <60** -- retired after the changes and rehired within 60 days of separation, or
- **After After >60** -- retired after the changes and rehired after 60 days of separation.

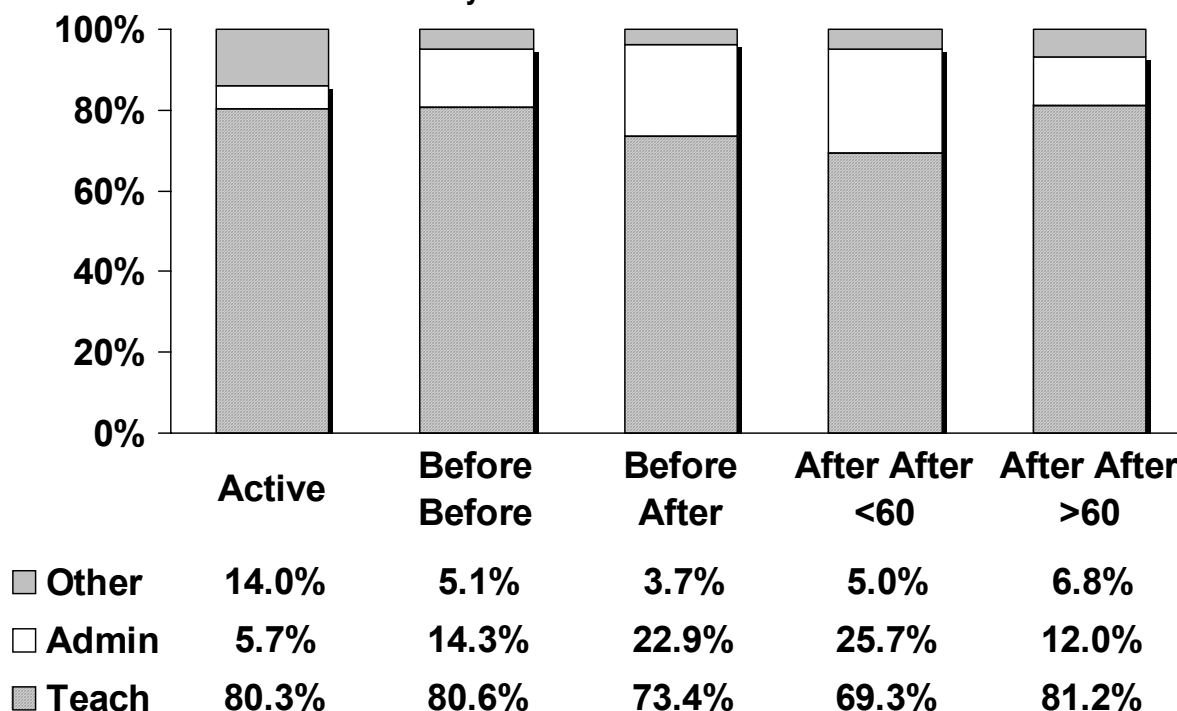
Plus, each of these groupings is split between those working above and below the old post-retirement hourly thresholds -- 867 hours in PERS and 840 hours in TRS.

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**Occupations:** The Department of Retirement Systems collects some rudimentary occupational information on TRS retirees but none on PERS retirees. The occupational distribution of PERS retirees can only be presumed via other measures like salary.

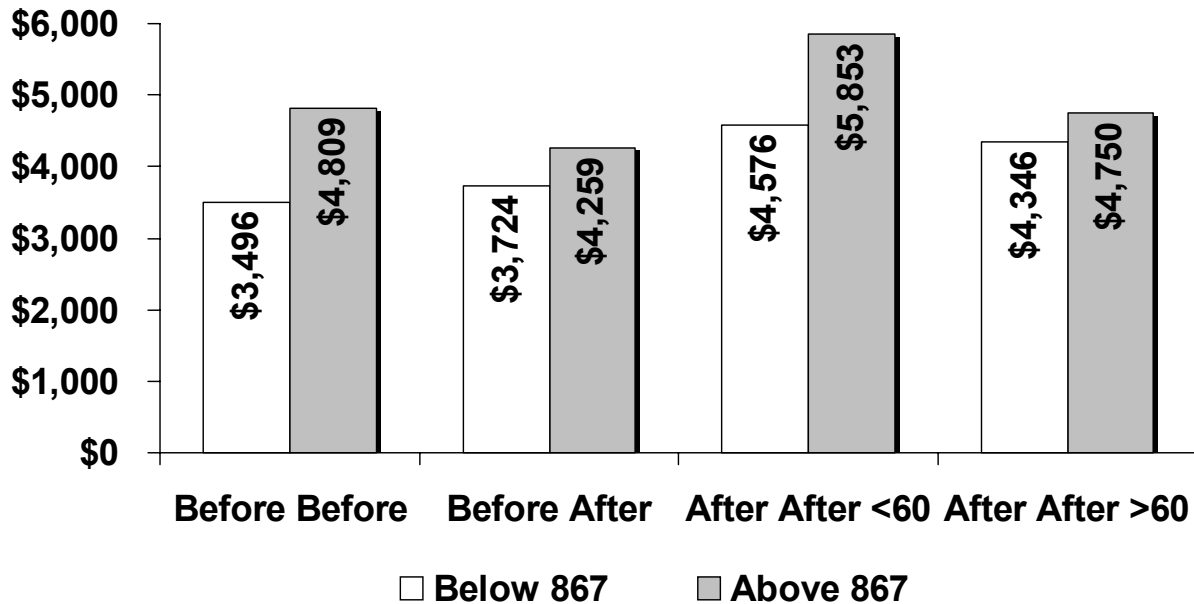
The occupations of TRS retirees fall within three large categories -- teachers, administrators, and others (see Appendix A for detail). Two items are evident in the occupational distribution of active and rehired TRS members, the greater use of administrators in rehire situations, and the lesser use of those in "other" occupations (see Figure 6). While administrators constitute 5.7% of all TRS occupations in Washington's schools, over 25% of those rehired within 60 days of retirement have been in administrator positions. This may be called a desirability effect. These patterns hold for both PERS and TRS members. This may also be a borrowing phenomenon; those higher salaried / managerial members retiring during this period will not be included in the future averages; thus the characteristics of future retirees may exhibit a moderating age, member service, and salary profile.

**Figure 6**  
**Occupational Share of Active TRS Members and Rehired TRS Members**  
**Working Over 840 Hours During the 2002-03 School Year**  
**by Period of Retirement**



**Average Final Compensation:** Another measure to examine in these retire-rehire characteristics is salary; because there is no occupational identifier in PERS retirement data as there is in TRS, salary is used as a proxy. If there were a greater share of managerial retirees in the current rehire situations, that would portend a higher average final compensation (AFC). This was the case as PERS 1 retiree AFC rose significantly when comparing select rehires (see Figure 7). Even after discounting for some inflation, this may be an indication that more senior administrative and managerial members represented a greater share of recent rehires.

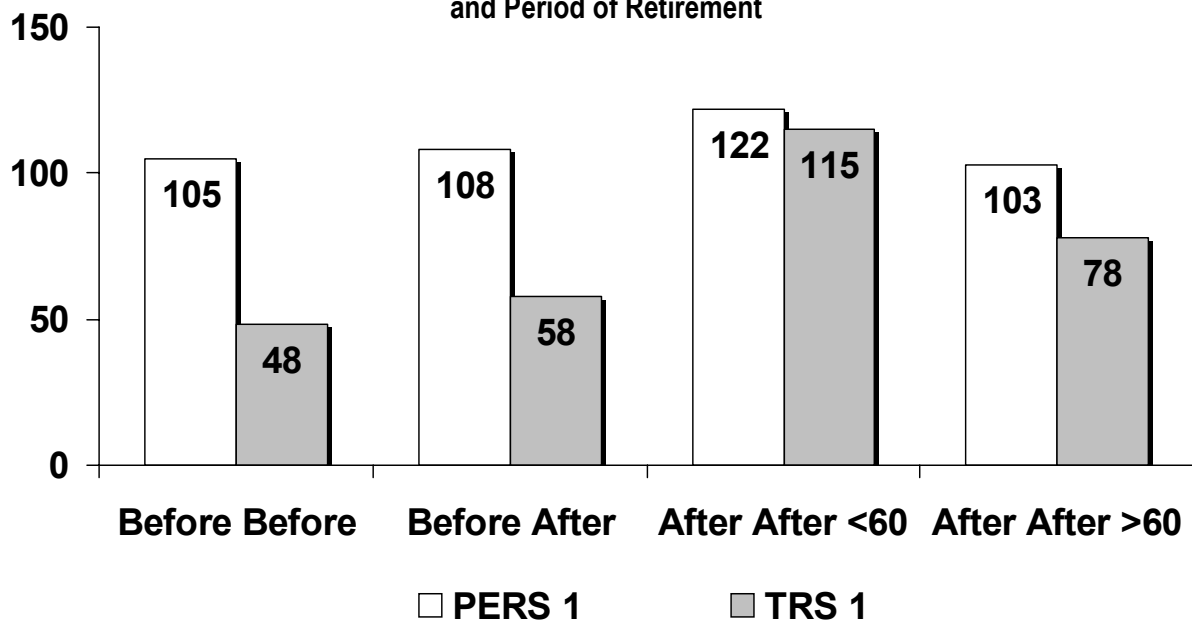
**Figure 7**  
**PERS 1 Rehires by AFC,**  
**Amount Working, and Period of Retirement**



**Rehire Hours:** Because of the interpretation of the 5-month provision, PERS retirees who returned to work could not spread out their hours, as could TRS members. As a result, they tended to work more hours per month but for fewer months. The changes in post-retirement provisions allowed PERS 1 members to work almost twice as much as before in terms of total hours, but also gave them, and their employers, the option of working part-time for the whole year.

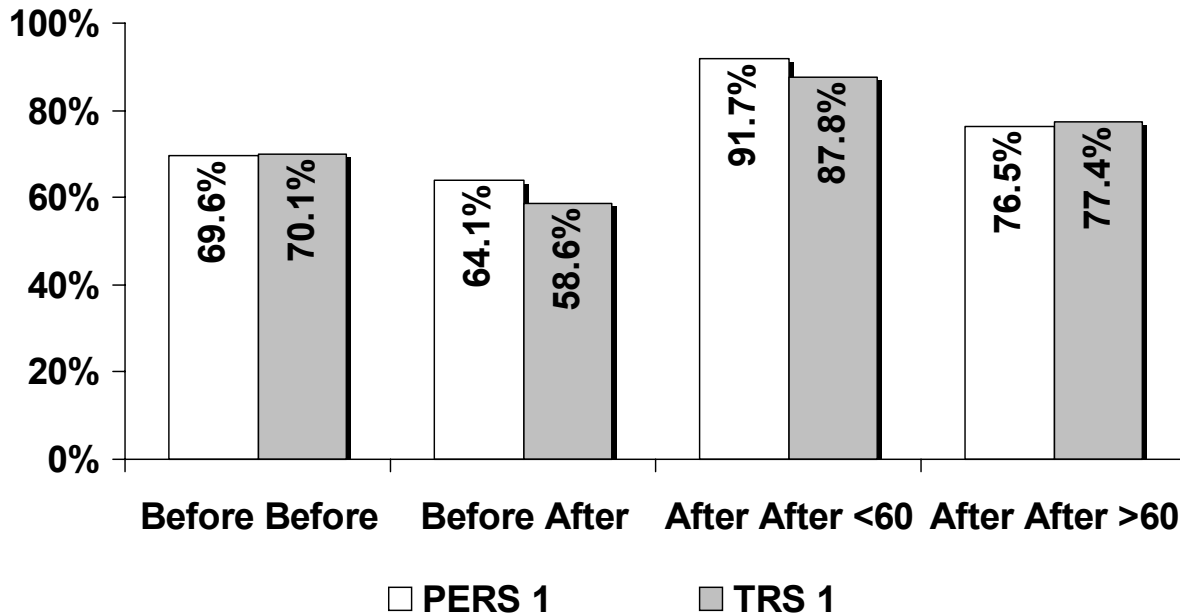
The greater increase in hours among the TRS members returning to work, compared to PERS, may be the result of the new opportunity to work full-time instead of as substitutes (see Figure 8).

**Figure 8**  
**PERS 1 and TRS 1 Rehires by Hours per Month**  
**and Period of Retirement**



**Return to Where:** When retirees return to employment, where do they return? For the most part, they return to their former employers. While a number of retirees do use retirement to change employers and seek other opportunities, they tend to be in the minority. Prior to the changes in the post-retirement statutes, approximately 2/3rds of rehires who returned to work did so with their last employer (see Figure 9). In the period immediately following the changes, nine out of ten rehires returning within 60 days returned to the same employer from which they retired.

**Figure 9**  
**PERS 1 and TRS 1 Rehires by**  
**% at Same Employer and Period of Retirement**



**Who Uses Rehires:** Many employers use retirees as part of their human resource policy. This analysis examines those employers who had 5 or more retirements and more than a 20% rate of rehire. Some 130 employers met that criteria, 89 TRS employers and 41 PERS employers – 18 of those PERS employers were school districts or community colleges as many of their administrative staff are not certified and are either PERS or SERS members.

As TRS members constitute the majority of rehires, it would hold that school districts be the most common employers. The largest such employer is the Seattle School District, employing 80 rehires as of the end of 2002 (see Figure 10). The top rehire employers are school districts within the Puget Sound region. That these tend to be among the largest school districts in the state is one of the reasons they employ large numbers of rehires. In addition, it is within this region where all employers experienced significant labor shortages at the peak of the last business cycle.

A number of PERS employers also employ a significant number of rehires. The Department of Social and Health Services employed 44 rehires; this number is relatively middling considering the size of DSHS, and their large number of retirees. The State Department of Transportation is the next PERS employer on the list with 23 rehires.



Lake Stevens School District is noteworthy in that all those it rehired were on pace to work full time. Lake Stevens is not the only such employer (see Appendix B): all the retirees rehired by The Department of Information Services, McNeil Island Correctional Facility, Kiona- Benton City School District, Grandview School District, and Ellensburg School District were on pace to work beyond the earlier hourly limits.

**Figure 10**  
**Rehires by Employer Ranked by Number Working Above Earlier Limit**  
**From July 1, 2001 to December 1, 2002**

| <b>Department Name</b> | <b>Retirees</b> | <b>Rehires</b> | <b>Over 840-867<br/>Hour Threshold</b> |
|------------------------|-----------------|----------------|--|
| Seattle SD             | 225             | 80             | 35                                     |
| North Thurston SD      | 64              | 46             | 27                                     |
| Highline SD            | 75              | 38             | 25                                     |
| DSHS                   | 294             | 44             | 21                                     |
| Lake Washington SD     | 70              | 30             | 18                                     |
| Renton SD              | 46              | 32             | 18                                     |
| Northshore SD          | 55              | 33             | 12                                     |
| Shoreline SD           | 50              | 19             | 12                                     |
| DOT                    | 116             | 23             | 12                                     |
| Tacoma SD              | 129             | 65             | 11                                     |
| Edmonds SD             | 77              | 32             | 11                                     |
| Lake Stevens SD        | 19              | 11             | 11                                     |
| Kent SD                | 79              | 28             | 10                                     |
| Auburn SD              | 45              | 14             | 10                                     |
| Issaquah SD            | 43              | 20             | 9                                      |

## Unemployment Insurance Issue

Unemployment insurance (UI) is provided to those that lose their jobs. To qualify, a worker had to have been in a job covered by unemployment insurance, have worked 680 hours in 4 of the last 5 calendar quarters, and be without work through no fault of their own.

Workers who retire are not unemployed – they have voluntarily left employment and do not qualify for UI. By returning to work, however, most retirees place themselves on a new rung of the labor market ladder. The majority of retirees in public sector return-to-work arrangements are no longer in permanent jobs. They no longer have an expectation of continued employment beyond a fixed point in the future – normally less than one year. As a result, when they separate from that job, they are considered unemployed. And if they worked at least 680 hours in that job, they are eligible for UI.

State and local governments in general have a low incidence of employee lay-offs or reductions in force (RIFs). There are a variety of government employers – parks departments, and even schools -- that use seasonal employees. But even these employees have a reasonable expectation of continued employment; school employees don't work in July and August, but know they have a job come September. As a result, the unemployment taxes paid by State and Local government are quite low on the tax schedule. However, by hiring a retiree who may, at the end of their employment, be eligible for UI, government employers may be increasing their unemployment tax liability. While this is not a cost to the retirement plans, it is a cost nonetheless. Recent legislation (SHB 1829, C412 L03) requires DRS and the Employment Security Department to notify employers about the possible unemployment compensation consequences of hiring retirees.

## Retirees Return

It appears that retirees are attracted back to public employment by increasing the number of hours they are allowed to work before their benefit is suspended. This can be seen when comparing the counts over time of retirees who already had some post-retirement work experience, and counts of other retirees whose original retirement decision could not have been influenced by the change in statute. These two groups of retirees experienced an increase of 1,347 workers between June and December of 2002 (see Figure 11).

**Figure 11**  
**Counts of Rehires Whose Original Retirement Decision**  
**Was Not Influenced by Ch. 10, L of 01, 2<sup>nd</sup> sp. sess.**

| Period Ending   | Before Before |       | Before After |       | Total        |
|-----------------|---------------|-------|--------------|-------|--------------|
|                 | PERS 1        | TRS 1 | PERS 1       | TRS 1 |              |
| <b>June 02</b>  | 711           | 1,281 | 621          | 1,767 | 4,380        |
| <b>Dec 02</b>   | 924           | 1,527 | 1,022        | 2,254 | 5,727        |
| <b>Increase</b> | 213           | 246   | 401          | 487   | <b>1,347</b> |

## Stakeholder Input

The SCPP will solicit information from the public and from OSPI, DOP, OFM, DRS and HCA regarding the program impacts of this act.

## SCPP Proposal(s) - Policy

Proposal(s) determined in the next reporting phase.

# Appendix A

## Department of Retirement Systems Occupational Classification for TRS Members

| Duty/Assignment*         | Individuals* | DRS Classification             |
|--------------------------|--------------|--------------------------------|
| Superintendent           | 279          | Administrator                  |
| Deputy/Assist. Supt.     | 159          | Administrator                  |
| Other District Admin.    | 1,032        | Administrator                  |
| Elementary Principal     | 1,171        | Administrator                  |
| Elem. Vice Principal     | 170          | Administrator                  |
| Secondary Principal      | 653          | Administrator                  |
| Secondary Vice Principal | 775          | Administrator                  |
| Other School Admin.      | 394          | Administrator                  |
| Elementary Teacher       | 31,548       | Teacher                        |
| Secondary Teacher        | 26,298       | Teacher                        |
| Other Teacher            | 7,416        | Teacher                        |
| Other Support Personnel  | 3,340        | Other                          |
| Library Media Specialist | 1,457        | Other                          |
| Counselor                | 2,231        | Other                          |
| Occupational Therapist   | 379          | Other                          |
| Social Worker            | 139          | Other                          |
| Spch.-Lang. Path./Audio. | 1,095        | Other                          |
| Psychologist             | 936          | Other                          |
| Nurse                    | 512          | Other                          |
| Physical Therapist       | 152          | Other                          |
| Reading Resource Spec.   | 20           | Other                          |
| Extracurricular          | 1,101        | Other                          |
| Substitute Teacher       | 52           | Teacher                        |
| Certificated on Leave    | 497          | Depends on role<br>when active |

*\*From Washington State Superintendent of Public Instruction, School District Personnel Summary Profiles.*

# Appendix B

## RETIREE RETURN TO WORK SUMMARY FOR DECEMBER, 2002

*Percentage of Rehire by Department for Members Retiring Between JULY 2001 and DECEMBER 2002*

*Departments having 5 or more retirements and more than a 20% rate of rehire*

| DEPARTMENT NAME                | Retirees | Rehires |         | Over limit |         |
|--------------------------------|----------|---------|---------|------------|---------|
|                                |          | Number  | Percent | Number     | Percent |
| NACHES VALLEY SD 003 JT        | 10       | 10      | 100.0%  | 8          | 80.0%   |
| WHITE RIVER SD 416             | 9        | 9       | 100.0%  | 4          | 44.4%   |
| PUYALLUP SD 003                | 57       | 53      | 93.0%   | 5          | 9.4%    |
| UTILITIES & TRANSPORTATION COM | 7        | 6       | 85.7%   | 0          | 0.0%    |
| KIONA-BENTON CITY SD 052       | 6        | 5       | 83.3%   | 5          | 100.0%  |
| DEER PARK SD 414               | 6        | 5       | 83.3%   | 0          | 0.0%    |
| ENUMCLAW SD 216                | 15       | 12      | 80.0%   | 6          | 50.0%   |
| KELSO SD 458                   | 12       | 9       | 75.0%   | 5          | 55.6%   |
| TUKWILA SD 406                 | 8        | 6       | 75.0%   | 4          | 66.7%   |
| ANACORTES SD 103               | 8        | 6       | 75.0%   | 2          | 33.3%   |
| N THURSTON PUBLIC SCHOOLS - SD | 64       | 46      | 71.9%   | 27         | 58.7%   |
| RENTON SD 403                  | 46       | 32      | 69.6%   | 18         | 56.3%   |
| KETTLE FALLS SD 212            | 6        | 4       | 66.7%   | 0          | 0.0%    |
| SELAH SD 119                   | 6        | 4       | 66.7%   | 0          | 0.0%    |
| UNIVERSITY PLACE SD 083        | 17       | 11      | 64.7%   | 7          | 63.6%   |
| CAMAS SD 117                   | 11       | 7       | 63.6%   | 4          | 57.1%   |
| SEATTLE COMMUNITY COLLEGE      | 18       | 11      | 61.1%   | 0          | 0.0%    |
| EASTMONT SD 206                | 18       | 11      | 61.1%   | 4          | 36.4%   |
| NORTHSHORE SD 417              | 55       | 33      | 60.0%   | 12         | 36.4%   |
| FERNDAL SD 502                 | 20       | 12      | 60.0%   | 5          | 41.7%   |
| LAKE STEVENS SD 004            | 19       | 11      | 57.9%   | 11         | 100.0%  |
| MERCER ISLAND SD 400           | 21       | 12      | 57.1%   | 5          | 41.7%   |
| YELM SD 002                    | 14       | 8       | 57.1%   | 6          | 75.0%   |
| GREEN RIVER COMMUNITY COLLEGE  | 7        | 4       | 57.1%   | 0          | 0.0%    |
| SUNNYSIDE SD 201               | 7        | 4       | 57.1%   | 0          | 0.0%    |
| SUNNYSIDE SD 201               | 7        | 4       | 57.1%   | 2          | 50.0%   |
| WAPATO SD 207                  | 7        | 4       | 57.1%   | 3          | 75.0%   |
| BREMERTON SD 100               | 18       | 10      | 55.6%   | 4          | 40.0%   |
| CORRECTIONS AIRWAY HTS CORR CT | 9        | 5       | 55.6%   | 0          | 0.0%    |
| THURSTON CO                    | 9        | 5       | 55.6%   | 1          | 20.0%   |
| SHELTON SD 309                 | 9        | 5       | 55.6%   | 3          | 60.0%   |
| GRANDVIEW SD 200               | 9        | 5       | 55.6%   | 5          | 100.0%  |
| MOUNT VERNON SD 320            | 13       | 7       | 53.8%   | 1          | 14.3%   |
| HIGHLINE SD 401                | 75       | 38      | 50.7%   | 25         | 65.8%   |
| TACOMA SD 010                  | 129      | 65      | 50.4%   | 11         | 16.9%   |
| MONROE SD 103                  | 14       | 7       | 50.0%   | 2          | 28.6%   |
| SEDRO WOOLLEY SD 101           | 12       | 6       | 50.0%   | 4          | 66.7%   |
| QUILLAYUTE SD 402              | 8        | 4       | 50.0%   | 1          | 25.0%   |
| COLVILLE SD 115                | 8        | 4       | 50.0%   | 3          | 75.0%   |
| STEILACOOM HISTORICAL SD 001   | 6        | 3       | 50.0%   | 2          | 66.7%   |
| CLOVER PARK TECHNICAL COLLEGE  | 6        | 3       | 50.0%   | 1          | 33.3%   |
| KENNEWICK SD 017               | 37       | 18      | 48.6%   | 5          | 27.8%   |
| ISSAQUAH SD 411                | 43       | 20      | 46.5%   | 9          | 45.0%   |
| ELLENSBURG SD 401              | 11       | 5       | 45.5%   | 5          | 100.0%  |
| BURLINGTON-EDISON SD 100       | 11       | 5       | 45.5%   | 0          | 0.0%    |
| PORT ANGELES SD 121            | 27       | 12      | 44.4%   | 6          | 50.0%   |
| MUKILTEO SD 006                | 18       | 8       | 44.4%   | 2          | 25.0%   |
| SNOQUALMIE VALLEY SD 410       | 16       | 7       | 43.8%   | 3          | 42.9%   |
| STANWOOD SD 401                | 16       | 7       | 43.8%   | 5          | 71.4%   |
| SEQUIM SD 323                  | 9        | 4       | 44.4%   | 2          | 50.0%   |

# Appendix B

## Continued

| DEPARTMENT NAME                | Retirees | Rehires |         | Over limit |         |
|--------------------------------|----------|---------|---------|------------|---------|
|                                |          | Number  | Percent | Number     | Percent |
| LAKE WASHINGTON SD 414         | 70       | 30      | 42.9%   | 18         | 60.0%   |
| SUPERINTENDENT OF PUBLIC INSTR | 14       | 6       | 42.9%   | 5          | 83.3%   |
| TAHOMA SD 409                  | 14       | 6       | 42.9%   | 2          | 33.3%   |
| ROCHESTER SD 401               | 7        | 3       | 42.9%   | 0          | 0.0%    |
| LYNDEN SD 504                  | 7        | 3       | 42.9%   | 1          | 33.3%   |
| EDMONDS SD 015                 | 77       | 32      | 41.6%   | 11         | 34.4%   |
| BELLINGHAM SD 501              | 36       | 15      | 41.7%   | 2          | 13.3%   |
| OAK HARBOR SD 201              | 24       | 10      | 41.7%   | 1          | 10.0%   |
| BAINBRIDGE ISLAND SD 303       | 17       | 7       | 41.2%   | 4          | 57.1%   |
| BELLEVUE SD 405                | 60       | 24      | 40.0%   | 7          | 29.2%   |
| AUDITORS OFFICE ST             | 10       | 4       | 40.0%   | 2          | 50.0%   |
| TACOMA SD 010                  | 38       | 15      | 39.5%   | 0          | 0.0%    |
| SHORELINE SD 412               | 50       | 19      | 38.0%   | 12         | 63.2%   |
| CLOVER PARK SD 400             | 45       | 17      | 37.8%   | 5          | 29.4%   |
| INFORMATION SERVICES DEPT OF   | 13       | 5       | 38.5%   | 5          | 100.0%  |
| CORRECTIONS MCNEIL ISLAND CORR | 8        | 3       | 37.5%   | 3          | 100.0%  |
| RENTON SD 403                  | 8        | 3       | 37.5%   | 1          | 33.3%   |
| MONTESANO SD 066               | 8        | 3       | 37.5%   | 0          | 0.0%    |
| SEATTLE SD 001                 | 225      | 80      | 35.6%   | 35         | 43.8%   |
| EVERGREEN SD 114               | 58       | 21      | 36.2%   | 4          | 19.0%   |
| MOSES LAKE SD 161              | 14       | 5       | 35.7%   | 2          | 40.0%   |
| PENINSULA SD 401               | 14       | 5       | 35.7%   | 2          | 40.0%   |
| TUMWATER SD 033                | 14       | 5       | 35.7%   | 0          | 0.0%    |
| AGRICULTURE DEPT OF            | 11       | 4       | 36.4%   | 1          | 25.0%   |
| KENT SD 415                    | 79       | 28      | 35.4%   | 10         | 35.7%   |
| CENTRAL KITSAP SD 401          | 23       | 8       | 34.8%   | 2          | 25.0%   |
| VANCOUVER SD 037               | 62       | 21      | 33.9%   | 5          | 23.8%   |
| MARYSVILLE SD 025              | 35       | 12      | 34.3%   | 4          | 33.3%   |
| S KITSAP SD 402                | 24       | 8       | 33.3%   | 4          | 50.0%   |
| CORRECTIONS WA STATE REFORMATO | 18       | 6       | 33.3%   | 2          | 33.3%   |
| WESTERN WA UNIVERSITY          | 15       | 5       | 33.3%   | 0          | 0.0%    |
| LONGVIEW SD 122                | 12       | 4       | 33.3%   | 1          | 25.0%   |
| YAKIMA CO                      | 9        | 3       | 33.3%   | 2          | 66.7%   |
| MOUNT ADAMS SD 209             | 9        | 3       | 33.3%   | 2          | 66.7%   |
| BELLEVUE COMMUNITY COLLEGE     | 6        | 2       | 33.3%   | 0          | 0.0%    |
| EVERETT PORT OF                | 6        | 2       | 33.3%   | 1          | 50.0%   |
| OAK HARBOR SD 201              | 6        | 2       | 33.3%   | 0          | 0.0%    |
| MOSES LAKE SD 161              | 6        | 2       | 33.3%   | 1          | 50.0%   |
| WALLA WALLA SD 140             | 6        | 2       | 33.3%   | 0          | 0.0%    |
| CASTLE ROCK SD 401             | 6        | 2       | 33.3%   | 1          | 50.0%   |
| PASCO SD 001                   | 19       | 6       | 31.6%   | 1          | 16.7%   |
| AUBURN SD 408                  | 45       | 14      | 31.1%   | 10         | 71.4%   |
| LONGVIEW SD 122                | 32       | 10      | 31.3%   | 4          | 40.0%   |
| SPOKANE PUBLIC SCHOOLS         | 91       | 27      | 29.7%   | 3          | 11.1%   |
| ARLINGTON SD 016               | 10       | 3       | 30.0%   | 1          | 33.3%   |
| BETHEL SD 403                  | 35       | 10      | 28.6%   | 0          | 0.0%    |
| EVERETT SD 002                 | 35       | 10      | 28.6%   | 5          | 50.0%   |
| CHENEY SD 360                  | 21       | 6       | 28.6%   | 0          | 0.0%    |
| COMMUNITY COLLEGE OF SPOKANE   | 14       | 4       | 28.6%   | 0          | 0.0%    |
| RENTON CITY OF                 | 7        | 2       | 28.6%   | 1          | 50.0%   |
| HOQUIAM SD 028                 | 7        | 2       | 28.6%   | 1          | 50.0%   |
| WHITE PASS SD 303              | 7        | 2       | 28.6%   | 1          | 50.0%   |
| SNOHOMISH SD 201               | 22       | 6       | 27.3%   | 0          | 0.0%    |
| GRANT CO PUD 02                | 15       | 4       | 26.7%   | 2          | 50.0%   |
| SHORELINE SD 412               | 11       | 3       | 27.3%   | 0          | 0.0%    |
| OTHELLO SD 147                 | 11       | 3       | 27.3%   | 2          | 66.7%   |
| EPHRATA SD 165                 | 11       | 3       | 27.3%   | 0          | 0.0%    |

# Appendix B

## Continued

| DEPARTMENT NAME                | Retirees | Rehires |         | Over limit |         |
|--------------------------------|----------|---------|---------|------------|---------|
|                                |          | Number  | Percent | Number     | Percent |
| MOUNT BAKER SD 507             | 11       | 3       | 27.3%   | 1          | 33.3%   |
| OLYMPIA SD 111                 | 42       | 11      | 26.2%   | 9          | 81.8%   |
| ENERGY NORTHWEST               | 23       | 6       | 26.1%   | 5          | 83.3%   |
| YAKIMA SD 007                  | 48       | 12      | 25.0%   | 6          | 50.0%   |
| ECOLOGY DEPT OF                | 20       | 5       | 25.0%   | 2          | 40.0%   |
| ATTORNEY GENERAL               | 16       | 4       | 25.0%   | 2          | 50.0%   |
| CORRECTIONS WA STATE PENITENTI | 16       | 4       | 25.0%   | 2          | 50.0%   |
| ABERDEEN SD 005                | 16       | 4       | 25.0%   | 0          | 0.0%    |
| EASTERN WA UNIVERSITY          | 8        | 2       | 25.0%   | 0          | 0.0%    |
| ADMINISTRATIVE OFFICE OF THE C | 8        | 2       | 25.0%   | 0          | 0.0%    |
| HIGHLINE SD 401                | 8        | 2       | 25.0%   | 1          | 50.0%   |
| MEDICAL LAKE SD 326            | 8        | 2       | 25.0%   | 0          | 0.0%    |
| RICHLAND SD 400                | 25       | 6       | 24.0%   | 5          | 83.3%   |
| SUMNER SD 320                  | 22       | 5       | 22.7%   | 1          | 20.0%   |
| LAKE WASHINGTON SD 414         | 13       | 3       | 23.1%   | 0          | 0.0%    |
| CENTRALIA SD 401               | 18       | 4       | 22.2%   | 2          | 50.0%   |
| LEWIS CO                       | 9        | 2       | 22.2%   | 1          | 50.0%   |
| BELLEVUE CITY OF               | 9        | 2       | 22.2%   | 1          | 50.0%   |
| EVERETT CITY OF                | 9        | 2       | 22.2%   | 1          | 50.0%   |
| EVERGREEN SD 114               | 9        | 2       | 22.2%   | 0          | 0.0%    |
| CENTRAL KITSAP SD 401          | 9        | 2       | 22.2%   | 0          | 0.0%    |
| KC METRO                       | 70       | 15      | 21.4%   | 1          | 6.7%    |
| PIERCE CO                      | 14       | 3       | 21.4%   | 1          | 33.3%   |
| TRS Employers                  | 2,451    | 1,073   | 43.8%   | 428        | 39.9%   |
| PERS Employers                 | 531      | 172     | 32.4%   | 45         | 26.2%   |
| Total                          | 2,982    | 1,245   | 41.8%   | 473        | 38.0%   |

O:\SCPP 03\9-16-03 FullPost Retirement Appendix C.xls

# Appendix C

## Governor's Veto Message for SHB 1829

"I am returning herewith, without my approval as to sections 1 and 2, Substitute House Bill No. 1829 entitled:

"AN ACT Relating to post-retirement employment in the public employees' retirement system and the teachers' retirement system;"

This bill would impose new standards and procedures for rehiring members of the Teachers Retirement System and the Public Employees Retirement System who have retired from public employment.

I initially proposed the retire-rehire legislation in 2001 to address the shortage of qualified teachers and school administrators. Prior to this law, the Teachers Retirement System penalized experienced teachers by limiting them to 30 years of retirement service credit, even if they taught longer than that.

Section 1 would make it a felony for a member of the Teachers Retirement System to enter into an oral or written agreement to resume employment after retirement. While I appreciate the intent of the Legislature to prohibit employees and employers from entering into private handshake deals, the penalty in this section is significantly more severe than the penalty for similar acts committed by members of the Public Employees Retirement System. Therefore, I am vetoing section 1.

Section 2 would provide new standards and procedures for the future employment of retirees within the public school system. I strongly support those accountability provisions. However, section 2 would also place an artificial "lifetime limit" on the number of hours that a retired member of the system could work after being rehired, and would make that limit retroactive. The retroactive lifetime limit will place an unreasonable recruitment burden on school districts facing significant shortages of qualified teachers and principals. We must protect the ability of school districts to provide for the education of our children, and trust their locally elected school boards to properly administer the retire-rehire law. Therefore, I am vetoing section 2.

While I am not vetoing Section 4, which would make it a gross misdemeanor for a member of the Public Employees Retirement System to enter into an oral or written agreement to resume employment after retirement, I am concerned that the language of the section is flawed and therefore almost impossible to prosecute under. I believe the Legislature should consider legislation to perfect the language to make the elements of the crime clear and to place the language into RCW 41.40.055, which is the section dealing with pension fraud for this retirement system.

For these reasons, I have vetoed sections 1 and 2 of Substitute House Bill No. 1829.

With the exception of sections 1 and 2, Substitute House Bill No. 1829 is approved."




**Washington State  
Health Care Authority**

P.O. Box 42710 • Olympia, Washington 98504-2710  
FAX 360-923-2766 • TTY 360-923-2701 • [www.hca.wa.gov](http://www.hca.wa.gov)

October 20, 2003

**TO:** Representative Steve Conway, Chair, Select Committee on Pension Policy  
Senator Shirley Winsley, Vice Chair, Select Committee on Pension Policy  
Members, Select Committee on Pension Policy

**FROM:** Richard Onizuka,  Director of Health Care Policy, Health Care Authority

**SUBJECT:** **Impacts of post-retirement employment provisions in Chapter 10, Laws of 2001, 2<sup>nd</sup> special session, on the Public Employees Benefits Board (PEBB) program**

Background

During the 2001 legislative session, the Health Care Authority (HCA) submitted a fiscal note on ESSB 5937 that projected a 2003-05 biennial savings of \$294,000. This estimate was based on an assumed decrease of one-half to one percent in the number of non-Medicare retirees in the PEBB state active and non-Medicare retiree risk pool due to re-employment of K-12 school district retirees. Since most school districts purchase benefits for their active employees outside of the PEBB program, re-employment of K-12 retirees into positions where district benefits were available would result in fewer non-Medicare retirees in the PEBB risk pool. Non-Medicare retirees are in the same insurance rate pool as state and higher education active employees, so post-retirement employment of state and higher education employees re-hired by their employers was not expected to significantly impact the risk pool.

Public Employees Benefits Board rules currently provide retirees with two options upon retirement:

1. Enroll in a PEBB medical plan; or
2. Defer enrollment in PEBB plans if the retiree is covered through his own re-employment or the employment of a spouse or same-sex domestic partner.



October 20, 2003

Page 2

These options have been available for retirees who were re-employed by state or K-12 employers since 1996 and for retirees re-employed by other employers since 2001. If the retiree does not select option 1 or 2, he or she forfeits eligibility for PEBB retiree coverage.

The Health Care Authority requires retirees to complete a form indicating their enrollment or deferral. HCA also requires retirees to provide proof of continuous coverage upon application for re-enrollment.

The premium rate paid by non-Medicare retirees is subsidized by their inclusion in the same risk pool as active state and higher education employees. Since the rate is established on a younger and generally healthier risk pool, our actuaries estimate non-Medicare retirees receive an implicit subsidy of approximately \$200 per month in CY 03. This is the estimated value of the difference between what it costs a retiree to buy PEBB's benefit package and what it would cost to purchase the coverage through other insurance.

#### Analysis

PEBB non-Medicare retiree enrollment has dropped from 10,894 subscribers in June 2001 to 10,209 in June 2003. This is an enrollment reduction of approximately 6 percent. This compares to a prior annual trend of enrollment increases in non-Medicare retiree enrollment from 3,280 in 1992 to 10,894 in 2001.

Figure 2 on page 5 of the *Preliminary Post-Retirement Employment Report* shows an extra 442 TRS 1 retirements for 2001 and figure 5 on page 13 of the report shows that most of the rehires were TRS members. The combination of this information with the PEBB retiree enrollment data suggests that a substantial portion of the decrease is related to re-employments and the passage of Chapter 10, Laws of 2001, 2<sup>nd</sup> special session. This is consistent with our fiscal analysis of ESSB 5937.

However, we cannot document with clarity the extent this decrease is related to the passage of the legislation. HCA currently does not have a mechanism for tracking the number of retiree deferrals or the types of re-employment (i.e., K-12 school district compared to private sector re-employment).

Thank you for the opportunity to present this information. If you have any questions, please contact me at (360) 923-2820 or Dennis Martin, HCA Director of Policy and Legislative Relations, at (360) 923-2831.



STATE OF WASHINGTON  
DEPARTMENT OF RETIREMENT SYSTEMS

PO Box 48380 • Olympia WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 17, 2003

The Honorable Steve Conway, Chair  
The Honorable Shirley Winsley, Vice Chair  
Select Committee on Pension Policy  
Post Office Box 40914  
Olympia, Washington 98504-0914

Dear Representative Conway and Senator Winsley:

Thank you for inviting the Department of Retirement Systems (DRS) to provide the Select Committee on Pension Policy (SCPP) with program implications of the post-retirement employment provisions of Chapter 10, Laws of 2001, 2<sup>nd</sup> Special Session (ESSB 5937). The adoption and implementation of the post-retirement rules beginning in 2001 had a positive administrative impact on DRS, its customers and suppliers. These positive impacts include:

- Simplification and standardization of the post-retirement employment rules. As outlined on pages 8 and 9 of the Office of State Actuary's (OSA) *Preliminary Post-Retirement Employment Report* to the SCPP, there have been numerous return to work rules, including separate standards for Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) retirees. ESSB 5937 allowed for consistent application of rules across retirement systems, which resulted in improved communications to members and retirees. This also allowed for the implementation of simplified administrative rules for employers.
- Improved accuracy and timeliness of data. In order to provide timely customer service and administer the distinct benefit plans, DRS must rely on data provided by the approximately 1,300 employers who participate in the pension plans. The new rules standardized the reporting requirements for PERS and TRS, thus reducing employer reporting complexity. The standardized rules resulted in improved timeliness and accuracy of DRS' post-retirement data.
- Electronic collection of data. Prior to the adoption of the post-retirement provision in 2001, all retiree return to work data was collected manually from employers and was hand-keyed into DRS systems. Coordination with employers, combined with funding provided by the legislature, allowed DRS to improve the accuracy of the return to work data by automating those manual data collection processes.



Representative Conway  
Senator Winsley  
October 17, 2003  
Page 2

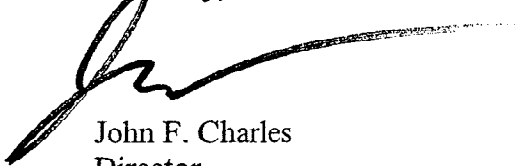
- Electronic management of benefits. DRS electronic benefit and disbursement systems are managed utilizing a series of rule tables. The creation of consistent standards allowed DRS to modify and develop new tables that could more efficiently manage the benefit processes. These modifications, combined with the changes to electronically collect and store retiree data, allowed DRS to automatically monitor retiree hours against the maximum post-retirement limits.

The 2001 changes to post-retirement employment also required DRS to alter customer communications, systems and processes. The 2003 post-retirement changes modified these same communications and processes and created new requirements including:

- Monitoring the length of separation from service in order to qualify for separate and distinct post-retirement hourly limits.
- Monitoring of cumulative lifetime hourly limits including retroactive review of retiree hours back to 2001.
- Cessation of benefits based on separation from service and reaching specified hourly limits.
- New automated communications for retirees approaching the 867 and 1,500 hourly limits.
- New annual notification of hours applied against the cumulative 1,900 post-retirement limit.

Included with this letter is the detailed documentation of the administrative impacts outlined in summary above. I want to thank you again for providing DRS with the opportunity to present this information. Please feel free to contact me if you have any questions.

Sincerely,



John F. Charles  
Director

Enclosure

cc: Matt Smith, State Actuary

## **Department of Retirement Systems Post-Retirement Employment Administrative Accomplishments**

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The adoption of the 2001 and 2003 post-retirement employment laws provided the Department of Retirement Systems (DRS) the opportunity to achieve specific administrative goals. Listed below are the specific goals, objectives and accomplishments implemented by DRS.

- **Goal**

Increase member and retiree awareness and understanding of the post-retirement employment provisions.

**Objective**

Develop clear and concise publications and deliver to all DRS customers and suppliers.

**Current Status**

In 2001 and 2003, DRS communicated the new/revised post-retirement employment provisions to over 260,000 active members and 100,000 retirees. This was accomplished through the direct mailing of the *Retirement Outlook* newsletter to current retirees and a mailing to employers for active members. DRS also coordinated communication strategies with the Office of the Superintendent of Public Instruction (OSPI), Department of Personnel (DOP) and Health Care Authority (HCA), which resulted in consistent post-retirement employment information being available on each agency's Internet site.

In 2001, approximately 1,300 DRS employers received updated versions of the *Thinking About Working After Retirement* brochures for delivery to active members. DRS is in the process of revising this brochure to reflect the 2003 post-retirement employment changes.

All publications are available through DRS' Internet site, including an updated version of the PERS and TRS Member Handbooks. This information has been updated to reflect the most current changes.

- **Goal**

Increase DRS' capability to maintain accurate retirement information for public employees.

**Objective**

Automate paper-based benefit processes in order to provide timely service to customers.

**Current Status**

Prior to 2001, managing post-retirement benefits was primarily a manual process for DRS. This included the collection of data from employers (see Goal #3 below), tracking of post-retirement limits, suspension of benefits and communications to retirees. In 2001, DRS modified its systems to receive, process and store retiree employment information, hours and compensation electronically. Benefit systems were modified to track the appropriate 867 or 1,500-hour limits and identify retirees exceeding these limits who required suspension of benefits. New systems were developed to automatically restart benefits again at the beginning of a new calendar year. At the same time, customized letters were developed to notify members that they are approaching the hourly limits.

## **Department of Retirement Systems Post-Retirement Employment Administrative Accomplishments**

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DRS is currently working on modifying its benefits systems to comply with the 2003 post-retirement changes. This includes modifications to identify and track hourly limits for each retiree returning to work (retiree eligible to work 867 hours or 1,500 hours), based on the length of time between retirement and reemployment (either 30 or 90 days). In addition, new systems are being developed to track hours that count toward the new cumulative 1,900-hour limit and provide an annual notification to members of the number of hours applied to the cumulative limit. This notification will assist retirees with the management of their benefit and understanding of the post-retirement provisions.

Customized letters created in 2001 will be modified so that they are electronically produced when a retiree is approaching their hourly limit. In addition, a simultaneous e-mail will be developed to notify employers.

- **Goal**  
Increase the accuracy of retiree employment data.

### **Objective**

Implement electronic processes to collect retiree employment data from DRS employers.

### **Current Status**

DRS relies on data provided by the approximately 1,300 employers who participate in the pension plans. Prior to the adoption of the post-retirement provision, all retiree return to work data was collected manually from employers and hand-keyed into DRS systems. Work with employer stakeholders, combined with funding provided by the legislature, allowed DRS to improve the accuracy of the return to work data by automating those manual data collection processes. Accomplishing this goal required the development and publication of new technical and procedural reporting requirements, which includes information regarding unemployment insurance impacts. The DRS Employer Handbook was also updated for distribution to employers.

Automating data received from employers provided DRS with the opportunity to enhance the reporting of retiree information to the Office of the State Actuary (OSA). In July 2001, DRS and OSA worked together to identify the data required for actuarial purposes. These requirements were included in the information communicated to DRS employers.



## SUPERINTENDENT OF PUBLIC INSTRUCTION

DR. TERRY BERGESON OLD CAPITOL BUILDING • PO BOX 47200 • OLYMPIA WA 98504-7200 • <http://www.k12.wa.us>

October 21, 2003

The Honorable Steve Conway  
Chair, Select Committee on Pension Policy  
2420 Bristol Court S.W., Suite 101  
Olympia, WA 98504-0914

The Honorable Shirley Winsley  
Vice Chair, Select Committee on Pension Policy  
2420 Bristol Court S.W., Suite 101  
Olympia, WA 98504-0914

Dear Representative Conway and Senator Winsley,

I would like to thank you for your invitation to speak to the Select Committee on Pension Policy (SCPP) regarding the impact of the post-retirement employment provisions of state law. I apologize that I am unable to attend your meeting but wanted to share with you my views on this issue.

When the Legislature acted in 2001 to change the provisions of Washington state pension law, one of the concerns brought to the Legislature was the staff shortage(s) in several school districts. As the data included in the September 2003 State Actuary's report indicate, several school districts have been able to utilize the so called retire-rehire provisions of state law to retain veteran, experienced educators, administrators and other school staff—to the benefit of our students. Most notably, numerous school districts within the Puget Sound region, probably the highest cost region in the state, are leveraging the retire-rehire law. This is an area of the state where districts have repeatedly indicated they have difficulty finding qualified employees.

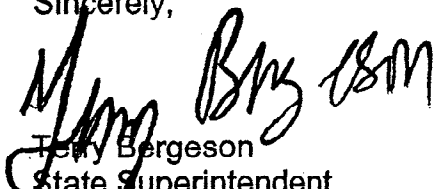
In the State Actuary's report he indicates that the 2001 provisions of the retire-rehire law have resulted in increased costs for the TRS 1 system. However, the report goes on to discuss that the exact cost to the TRS system "...is not easily measurable with a high degree of accuracy or confidence." I understand the State Actuary will prepare a final report that will include fiscal and policy recommendations regarding the impact(s) of the 2001 retire-rehire legislation.

Your committee is charged with proposing changes, if necessary, to employer contributions based upon the recommendations of the State Actuary. As the SCPP considers these recommendations, I hope you will keep in mind that the district staffing issues the retire-rehire legislation was designed to address have not abated. Thus, without the ability to rehire highly qualified veteran educators, administrators, and other school staff our districts would find themselves struggling to find the same calibre of employees for their hard to fill positions.

As you move forward with your task to examine the retire-rehire law, I encourage you to consider the findings of the State Actuary, consider the limitations of currently available data, and fully consider the benefit to our state of having our excellent veteran education professionals available to our schools.

Thank you for your consideration of my letter.

Sincerely,



Terry Bergeson  
State Superintendent  
of Public Instruction



STATE OF WASHINGTON

GOVERNOR'S EXECUTIVE POLICY OFFICE

*100 Insurance Building, PO Box 43113 • Olympia, Washington 98504-3113 • (360) 902-0666*

October 21, 2003

Mr. Chairman and members of the committee, thank you for the opportunity to speak to you about the postretirement employment program. I am Chris Rose, from the Governor's Executive Policy Office.

This program, often called the 'retire-rehire' program, has given schools an additional tool to bring experienced teachers back into classrooms. It has also given agencies a way to bring employees with hard to find skills back into public service in Washington. We are glad that the Legislature took this step to increase management flexibility and to improve our state's ability to keep expertise available to our schools and to state and local governments.

There are two things that make this program so important. The first of these is that, despite a soft economy, Washington's schools and agencies need experienced staff. While some jobs attract many applicants, there are others that remain hard to fill, notably in technical or specialized areas. In these positions especially, we need and value the expertise of our more experienced workers. When they leave our workforce we lose skills and continuity.

The second important factor is that prior to the expanded retire-rehire provisions, PERS and TRS Plan 1 retirees already had the ability to retire and then accept employment in another state or even within the state in a job not covered by their pension. Making them forfeit their pension to return to work in covered employment just encouraged them to look for work elsewhere. The retire-rehire program helps discourage highly skilled retirees from searching for postretirement employment in other states or outside government service.

This program gives us an opportunity to compete on a more even basis for the most skilled of our retirees.

We recommend the Committee wait for additional data to estimate the cost of the program. Particularly with the changes to the PERS 1 system made last session, it is too soon to know just what impact the program might have on pension system costs.

These changes, you remember, include a longer break between retirement and reemployment (3 months), tighter hiring requirements (chief executive officer approval, using established hiring processes, and with a documented need) and a lifetime maximum of 1900 hours of work beyond the 867 hours per year that was previously permitted. These changes seem likely to discourage those who are eligible for retirement from making a decision to retire purely based on the availability of postretirement employment in a covered position.

The program is providing a welcome managerial tool and a means to better manage our need for seasoned teachers and employees.

Thank you.





**RECEIVED**

**NOV 12 2003**

STATE OF WASHINGTON  
**DEPARTMENT OF PERSONNEL**

Office of  
The State Actuary

521 Capitol Way South, P.O. Box 47500 • Olympia, Washington 98504-7500 • (360) 664-1960 • FAX (360) 586-4694

November 6, 2003

The Honorable Steve Conway, Chair  
The Honorable Shirley Winsley, Vice Chair  
Select Committee on Pension Policy  
2420 Bristol Court SW, Suite 101  
P.O. Box 40914  
Olympia, Washington 98504-0914

Dear Representative Conway and Senator Winsley:

Thank you for the opportunity to comment on the Select Committee on Pension Policy's recent report on post-retirement employment provisions. It appears there was some confusion as to our agency's representation at your last meeting and we hope this letter will clarify our input.

The Department of Personnel primarily provides human resource assistance relating to classified employees in state agencies and institutions of higher education. The vast majority of those employees are in the Public Employees' Retirement System.

We are very supportive of giving state managers the flexibility to hire the right person for the right job, including the ability to hire retirees appropriately. The utilization of post-retirement employment since the mid-1960s has been an advantage to managers in meeting agency missions.

Administrative support for implementing the last several changes to the post-retirement employment statutes has not represented a significant draw on our agency's resources.

If you would like any additional information or have questions, staff will be available at your November 18 meeting.

Sincerely,

Gene Matt  
Director



# Select Committee on Pension Policy

## Extended School Year Post-Retirement Employment

*(November 10, 2003)*

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|                          |  |
|--------------------------|--|
| <b>Issue</b>             | A TRS 1 retiree returning to work in a district that uses an extended school year schedule might have their benefit suspended if they subsequently work for a school district that uses a regular school year schedule.  |
| <b>Staff</b>             | Robert Wm. Baker (360) 586-9237  |
| <b>Members Impacted</b>  | There were an estimated 98 TRS 1 members working in extended school year schools who may be impacted by this issue.  |
| <b>Current Situation</b> | <p>TRS 1 retirees may return to work for up to 1,500 hours per school year before their benefits are suspended.</p> <p>There are currently two school districts and 11 schools in other districts that use extended school year schedules. Enrollment in these schools is an estimated 8,000 students.</p> |
| <b>History</b>           | Chapter 31, Laws of 2003, amended the TRS provisions so as to allow the use of extended school year dates in determining a members average final compensation.   |
| <b>Policy</b>            | There is no current policy regarding post-retirement employment in extended-year schools.  |

## Illustration

The following figure illustrates how a TRS 1 member could work more than 183 days in a “school year” in a select post-retirement situation. Because the extended school year member would work in July, their contract extends into the subsequent “fiscal year/school year.” In the extended school year school, the member would actually work 175 days in the school year, and in the subsequent regular school the member would work 185 days.

| Days per Month by Regular and Extended School Year |   |                      |    |    |    |    |    |    |    |    |    |                             |                     |    |    |    |    |    |    |    |    |    |    |
|--|---|----------------------|----|----|----|----|----|----|----|----|----|-----------------------------|---------------------|----|----|----|----|----|----|----|----|----|----|
| Fiscal Year / School Year 1                        |   |                      |    |    |    |    |    |    |    |    |    | Fiscal Year / School Year 2 |                     |    |    |    |    |    |    |    |    |    |    |
| J  | A | S                    | O  | N  | D  | J  | F  | M  | A  | M  | J  | J                           | A                   | S  | O  | N  | D  | J  | F  | M  | A  | M  | J  |
| Days   |   | Extended School Year |    |    |    |    |    |    |    |    |    |                             | Regular School Year |    |    |    |    |    |    |    |    |    |    |
|  |   | 16                   | 17 | 16 | 15 | 19 | 15 | 22 | 17 | 17 | 21 |                             | 5                   | 20 | 23 | 17 | 15 | 19 | 15 | 23 | 17 | 20 | 11 |

This could, depending on the actual number of days worked in July and the number of hours in the school year, result in such a member working over 1,500 hours in the subsequent school year as shown in the following illustration. Members who work beyond 1,500 hours per school year in a post-retirement situation will have their retirement benefit suspended. Their benefit would resume the month following their separation from employment.

| <b>Hours Analysis Based on 5 Working Days in July and a 183-Day Contract</b> |                       |                      |                        |
|--|-----------------------|----------------------|------------------------|
| <b>Hours per day</b>   | <b>Hours per year</b> | <b>Hours in July</b> | <b>Hours in Year 2</b> |
| 8.0  | 1,464                 | 40                   | 1,504                  |

## Stakeholder Input

See attachment

November 10, 2003

Select Committee for Pension Policy

Subject: Extended School Year and Rehirement

Dear Members,

During the 2002 JCPP session it was suggested that by defining "school year" in RCW 41.32.010 the 1500 hour rehire criteria contained in RCW 41.32.570 would be clarified. As a 2003 SCPP agenda item, a refined proposal was submitted to the committee in a letter dated, September 16, 2003. This request included a policy issue dealing with the required waiting period for rehired extended year retirees. The proposal also suggested inserting a direct reference to RCW 28A.150.040 (the controlling statutory definition of "school year") into the current language of RCW 41.32.570 as the means to clarify the 1500 hour provision. This was done to be in keeping with how school year is currently defined within RCW 41.32.013. The proposal concerning the waiting period should remain a distinct item of consideration, even if it has to be deferred along with other policy matters until the 2004 Interim Session. In this light, it is requested that the required waiting period issue be included as a specific proposed policy matter in the forthcoming SCPP Rehire Report.

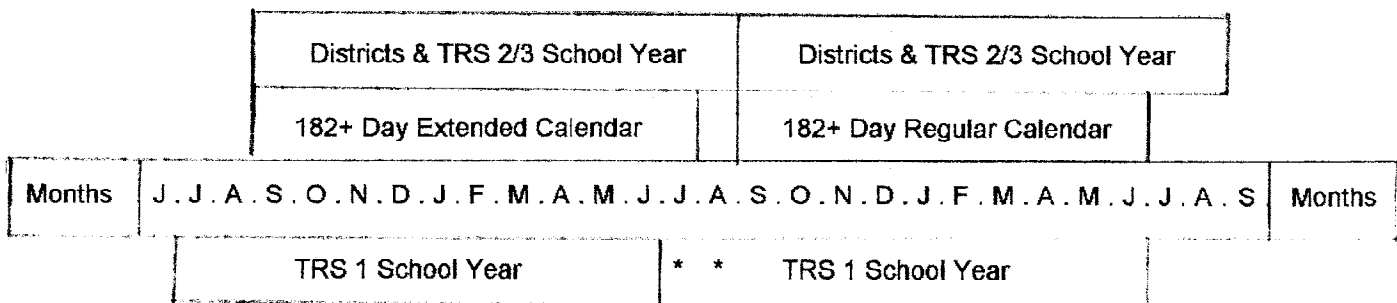
The 1500 hour issue is actually a stand-alone matter that only requires statutory clarification to indicate in which period of time are the hours to be accumulate. To focus on a specific question, the following consideration is posed. What is meant by the reference to "1500 hours per school year"; is it intended to be the DRS fiscal year or the district's school year? Comments for further consideration of this issue, along with the waiting period issue, are summarized below.

There is a one calendar month waiting period currently required before an active TRS 1 teacher can rehire as a retiree. This requirement does not present a problem for teachers who retire out of a regular calendar (Sep-Jun) school. These teachers are allowed to participate in the August hiring process and be hired without penalty because July is the waiting period. However, teachers who work in extended calendar schools normally do not complete their contract employment until sometime in July. Their required waiting period must be August. These teachers can not participate in the hiring process that would allow for a full year of employment as a rehiree unless they accept the waiting period penalty. This proposal would allow the extended year retirees to have the same statutory access for rehire as the regular year retirees by being exempted from the required one month waiting period. The waiting period would be waved only if the retiree completed the entire employment contract which required the final year of active service to be extended into July. Even though it applies to a relative small portion of the TRS 1 membership, this issue is a fairness and equality matter that merits corrective action,

A TRS 1 teacher (active or retired) who works during July, as a full-time teacher or short-term replacement in an extended year school, can have their June retirement benefit suspended if they subsequently rehire to work the following full school year in a regular year school. This is an unintended consequence that occurs because DRS currently uses its fiscal year period (Jul-Jun) to administer the 1500 hour limitation. This requires the total hours of

one full school year (Sep-Jun) to be combined with the hours from an extra month (July) from the previous school year to determine if the 1500 hours have been exceeded (See the Hours Analysis table below). Are the 1500 hours intended to accumulate during the actual employee/employer school year; or must the accumulation period be in concert with the DRS fiscal year? DRS currently administers this provision via WAC 415-112-541, which interprets the intent to be based on the DRS's fiscal year. Clarification of the statutory intent is being sought because school year is not currently defined in RCW 41.32.010. The proposal suggests that the limitation is intended to be based on the district's school year. The proposed solution requests that a direct reference to RCW 28A.150.040 be inserted into the current language of RCW 41.32.570. This would mirror how school year is statutorily defined in RCW 41.32.013; and would require only a simple clarifying revision to the rehire statute. The revision language could be "...1500 hours in a school year, as defined in RCW 28A.150.040". This is not a policy matter, it is a clarification matter; and it is requested that recommended action be approved by the SCPP this year.

The graphic presented below reflects the relationship of the applicable time periods that apply to this situation, and depicts time lines over a two year period.



Note: \* Indicates the period of time (Jul & perhaps Aug) that is in question

The table below reflects the actual circumstance that would apply if the full year of employment were to occur in a school districts that has an extended year program. It should be noted that it is based on actual data that would apply to the current 2003-2004 school year.

**Hours Analysis Based on 15 Work Days\* in July 2003  
and For 182\*\* Work Days & 186\*\* Work Days in the 2003 - 2004 School Year**

| Hours per Day | WA State** Hours per Year | District** Hours per Year | July* Hours | TRS 1 School Year Hours    |
|---------------|---------------------------|---------------------------|-------------|----------------------------|
| 8.0           | 1456                      | 1488                      | 120.0       | <b>1576 &amp; 1608</b>     |
| *7.5          | 1365                      | 1395                      | 112.5       | <b>1477.5 &amp; 1507.5</b> |
| 7.0           | 1274                      | 1202                      | 105.0       | <b>1370 &amp; 1407</b>     |

Notes: \* Most districts' require a 7.5 hour work day, and FWSD (a typical district) required 15 work days in July '03  
 \*\* WA St requires 182 days & districts can specify additional days; FWSD will have 186 paid days in '03-'04

The statutory **1500** hour limit is exceeded, as indicated above, only if the DRS school year is utilized. It requires the July hours from one district school year to be combined with the total hours of the following district school year. The 1500 hour limitation accommodates all of the district's work days with some slack hours left over. However, the 1500 hours limit should not be expected to accommodate the additional July work days. The 1500 hour limit should be based on the district school year; not the DRS fiscal year, as currently required by the WAC rule.

The above considerations have been presented to the Committee in an effort to be proactive to insure that the State's extended school year teachers' unique circumstances are adequately and fairly addressed within the TRS provisions. Action by the Committee on these matters will enable these teachers to have access to the same statutory provisions that are intended for the majority of the TRS 1 members, the regular school year teachers.

Please except this letter as written testimony since it is intended to reduce the verbal commentary during the time allowed for public input. I will be available to respond to any questions during the scheduled November 18 SCPP meeting. Thank you for the time reviewing this input and any discussion that may ensue.

Respectfully,

A handwritten signature in black ink that reads "Bobby J. Woolley". The signature is written in a cursive style with a large, stylized "B" and "W".

Bobby J Woolley

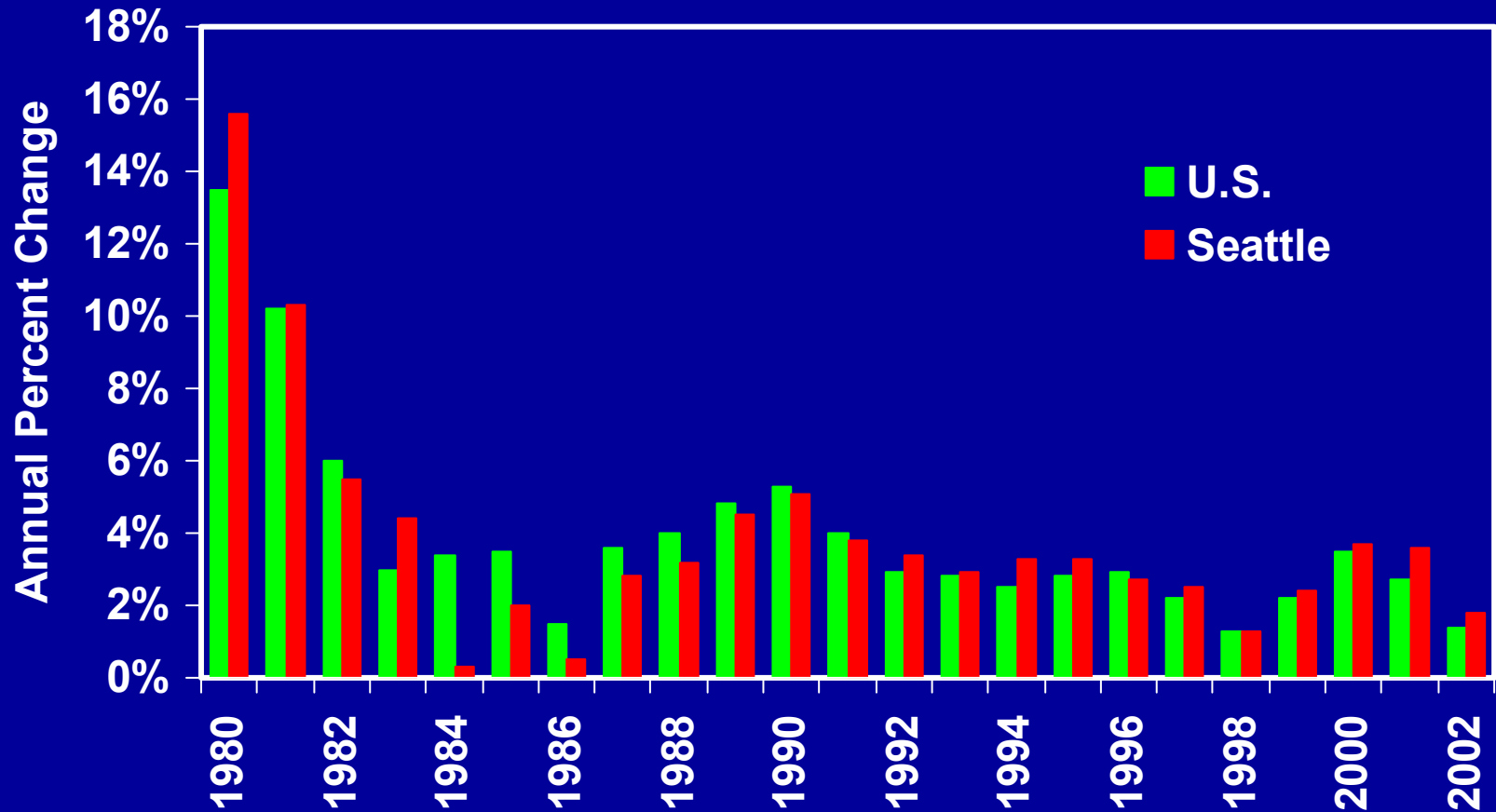


# **Recovery of Lost Purchasing Power**

Robert Wm. Baker  
Office of the State Actuary  
*November 18, 2003*

# Consumer Price Indices

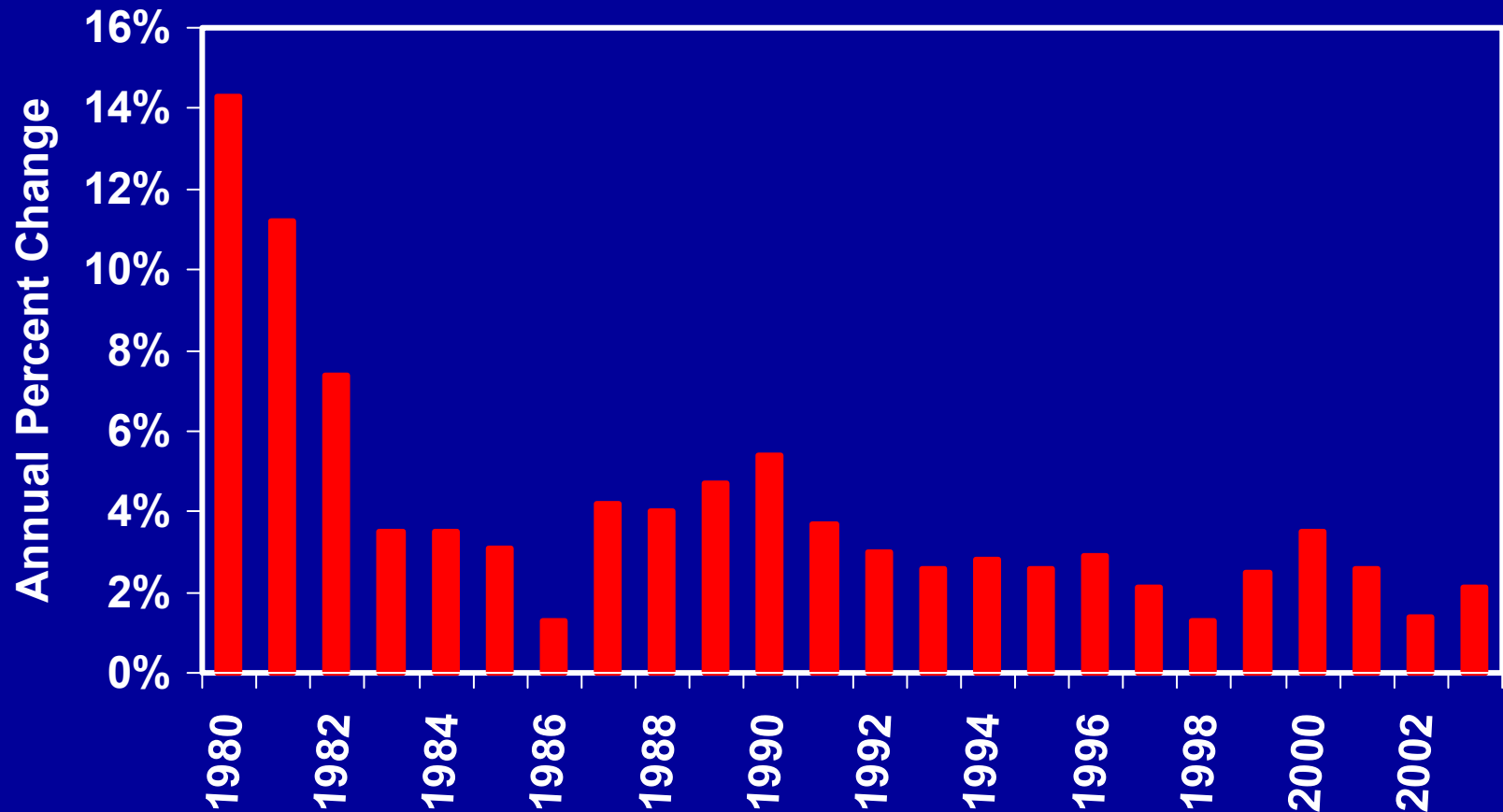
## Urban Wage Earners and Clerical Workers



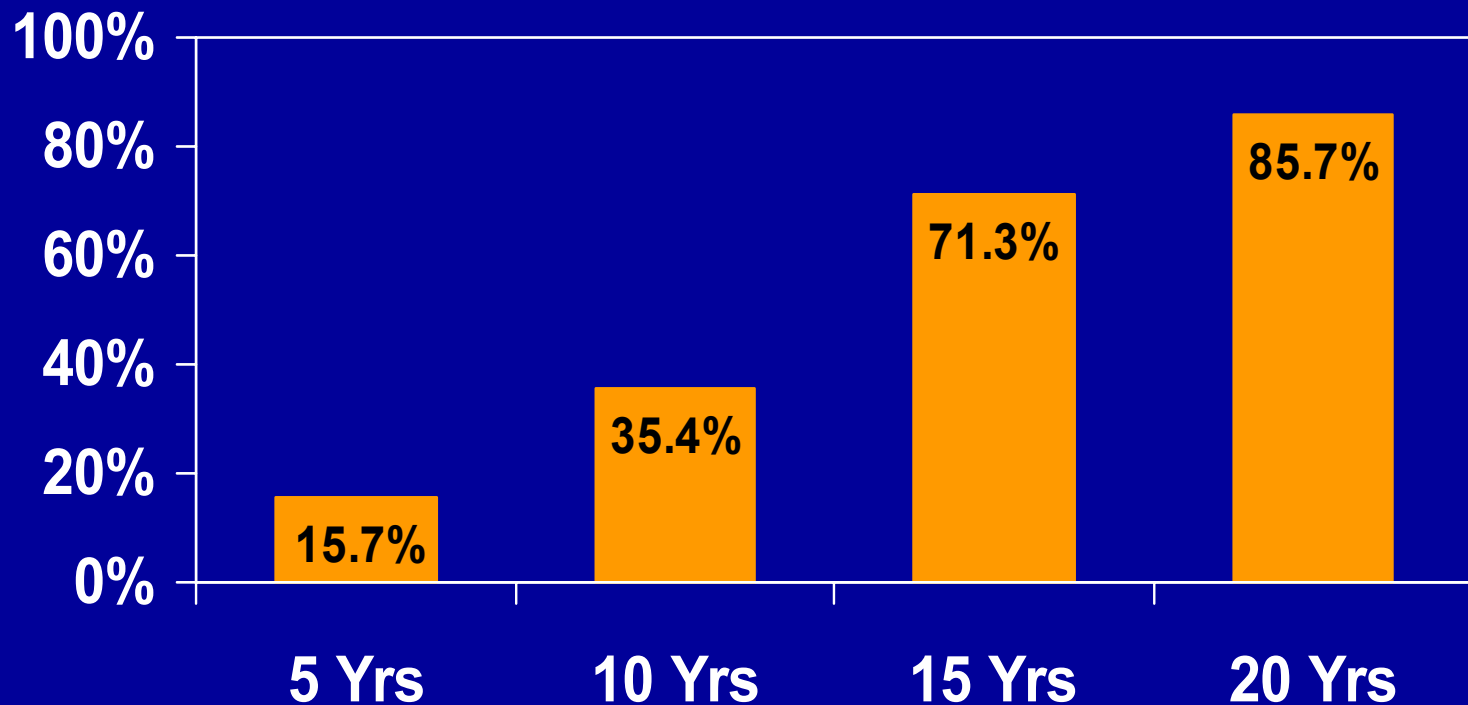


# Social Security Benefit

## Annual % Change



# Increases in Seattle Consumer Prices by Select Periods



# PERS/TRS 1 COLA Benefits

***Uniform Benefit:*** At age 66, after 1 yr of retirement, a dollar amount per month per year of service increased each year by 3%

# **LEOFF 1 COLA Benefits**

Benefit fully indexed to the Seattle  
CPI-W

# **Plan 2 COLA Benefits**

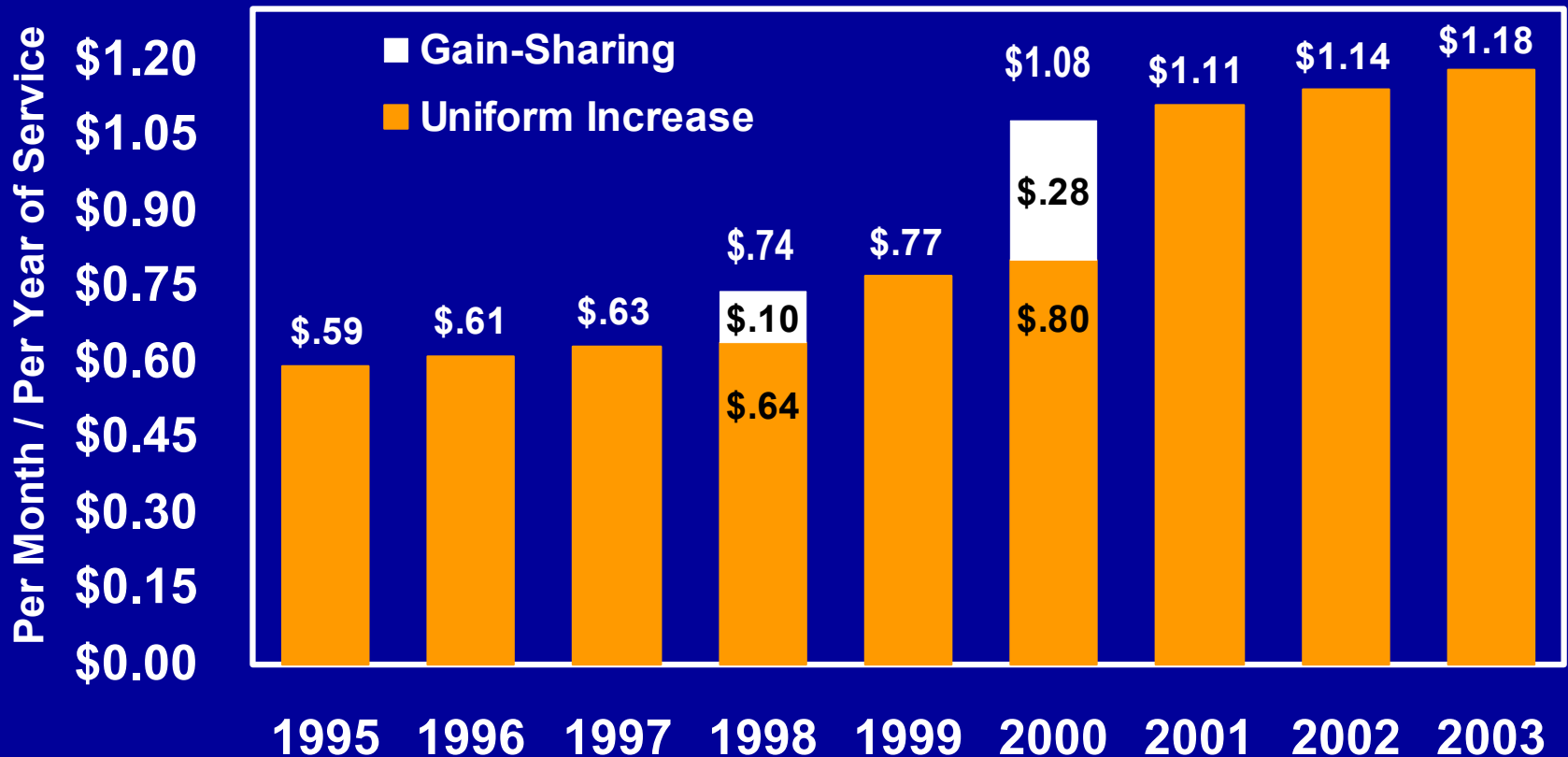
After 1 year of retirement at age 65, annual increases based on the Seattle CPI-W to a maximum of 3% per year

# Plan 3 COLA Benefits

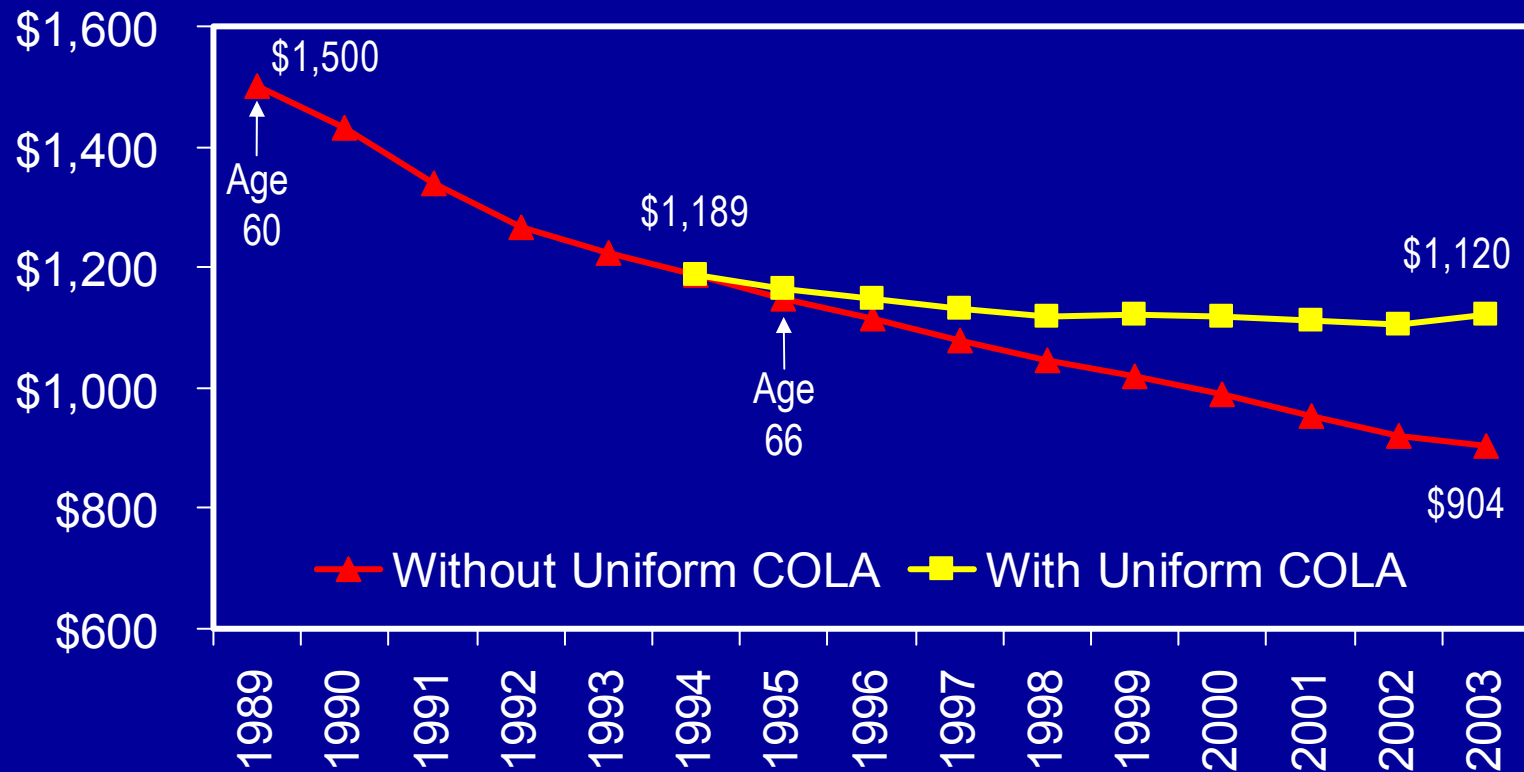
After 1 year of retirement, annual increases in the defined benefit portion based on the Seattle CPI-W to a maximum of 3% per year

# PERS/TRS Plan 1

## Uniform Increase Amount

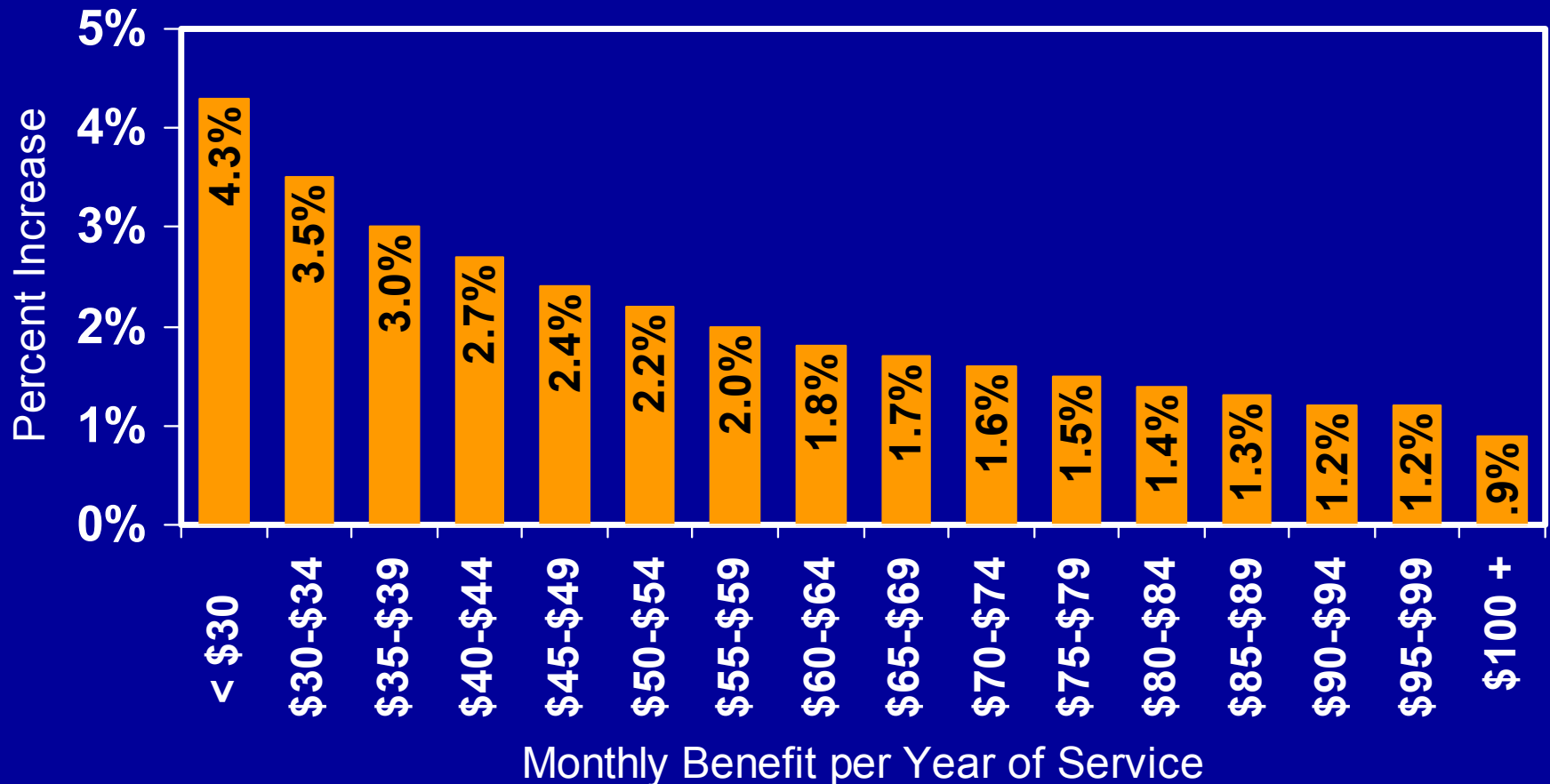


# Plan 1 Benefit Purchasing Power With and Without Uniform COLA

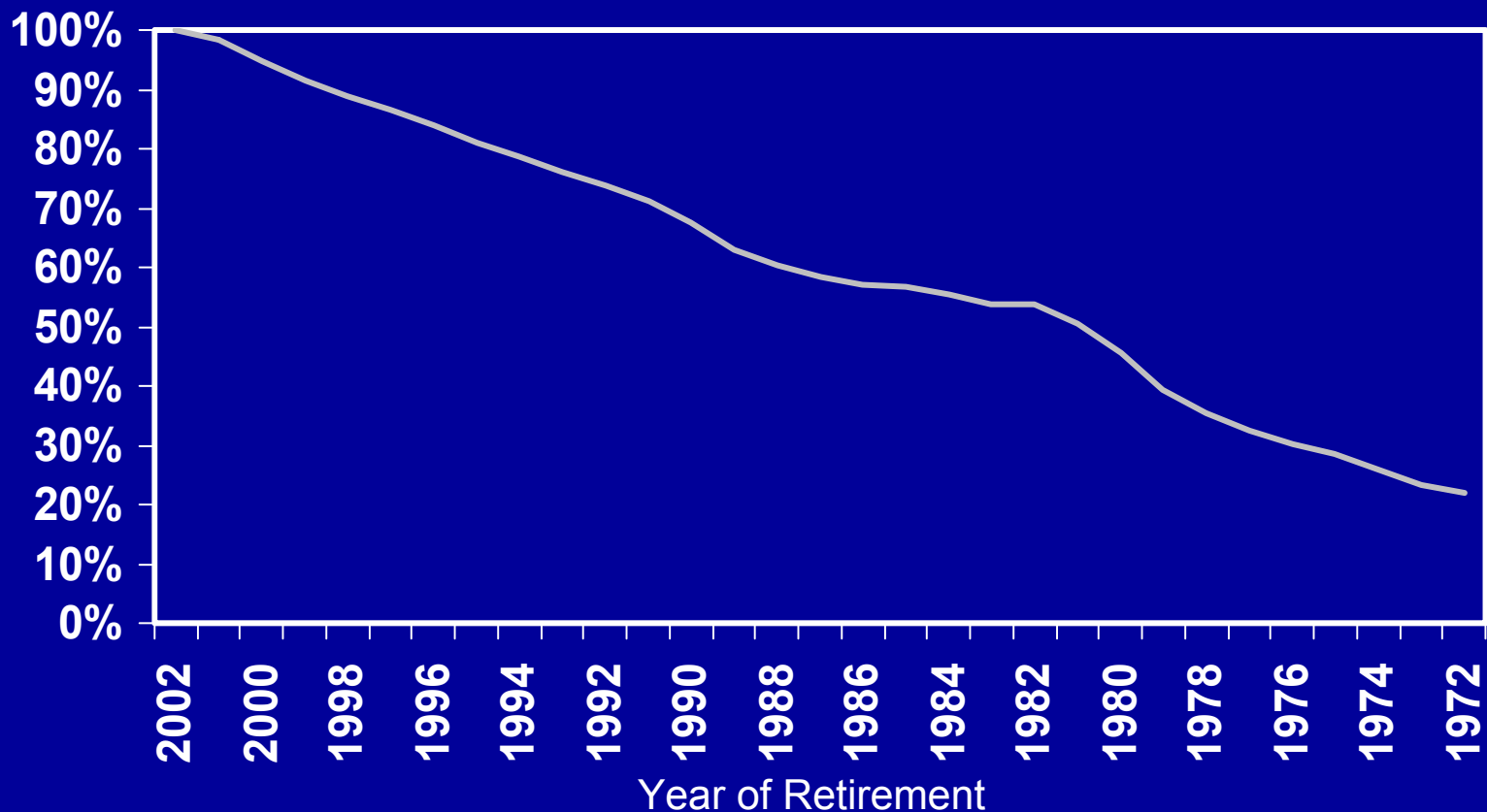




# Uniform COLA % Increase by Monthly Benefit per YOS at 9-30-2002

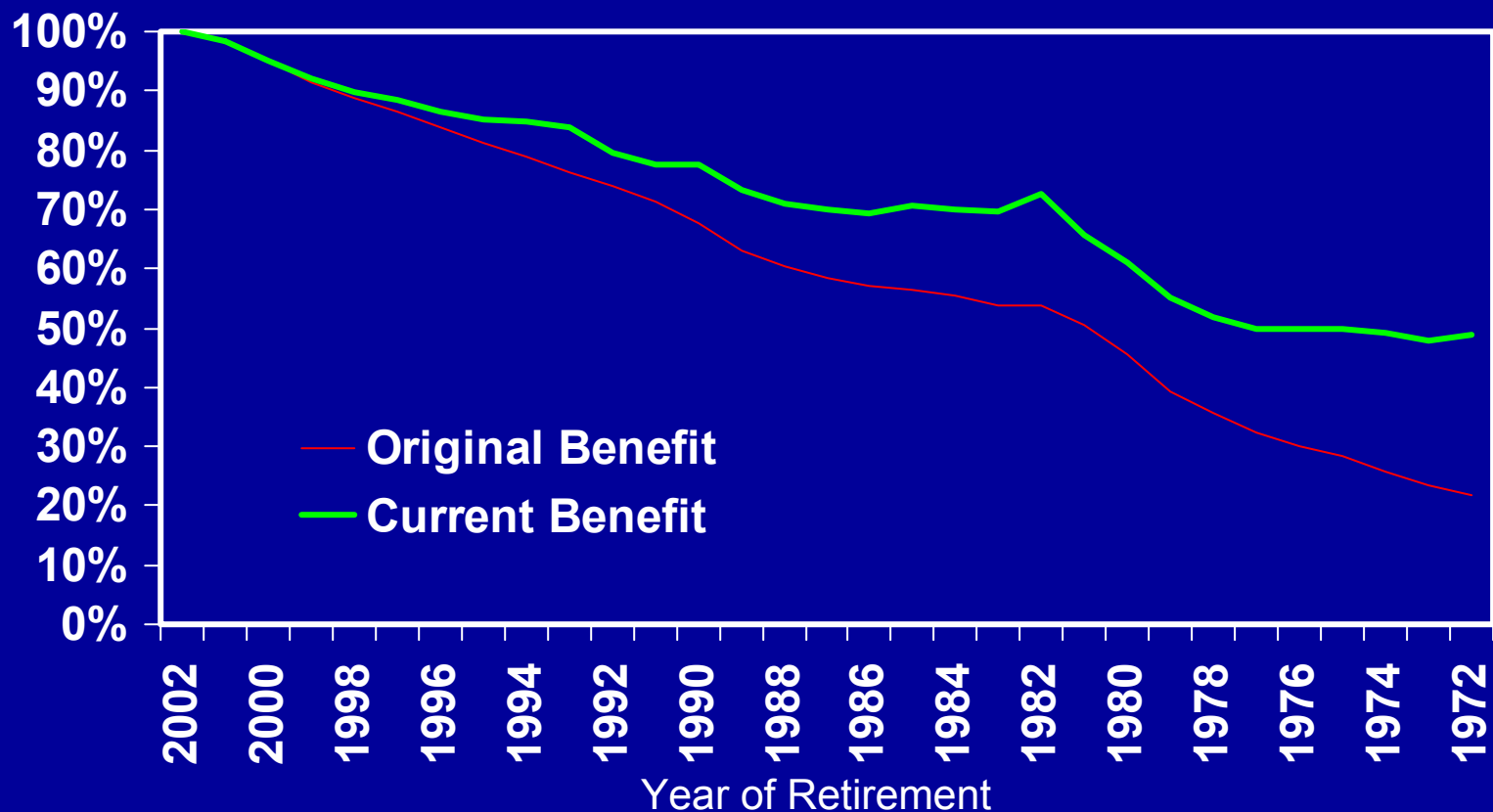


# Purchasing Power of a Fixed-Dollar Benefit in 2002



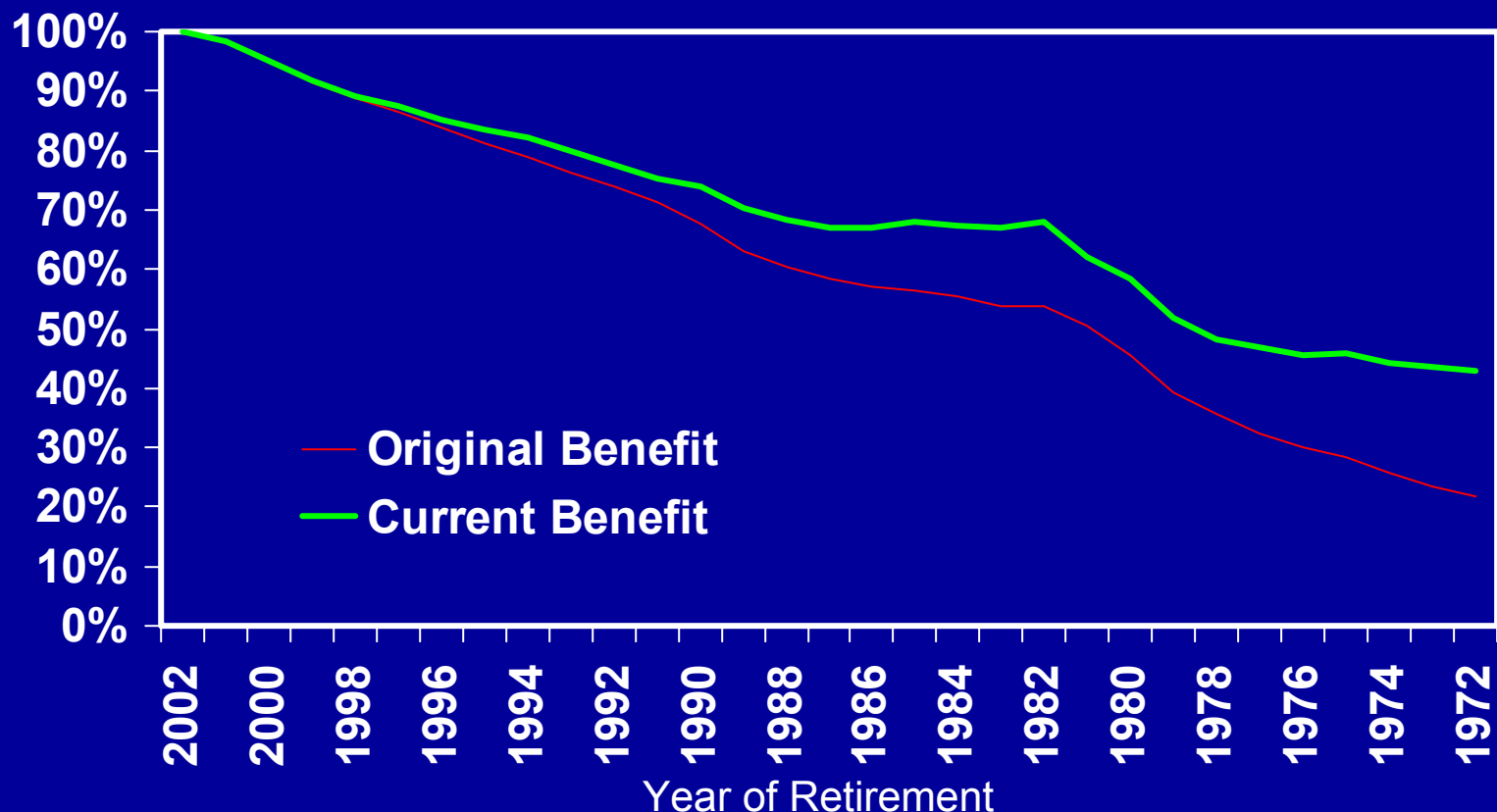
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

# Purchasing Power of PERS 1 Service Benefits in 2002



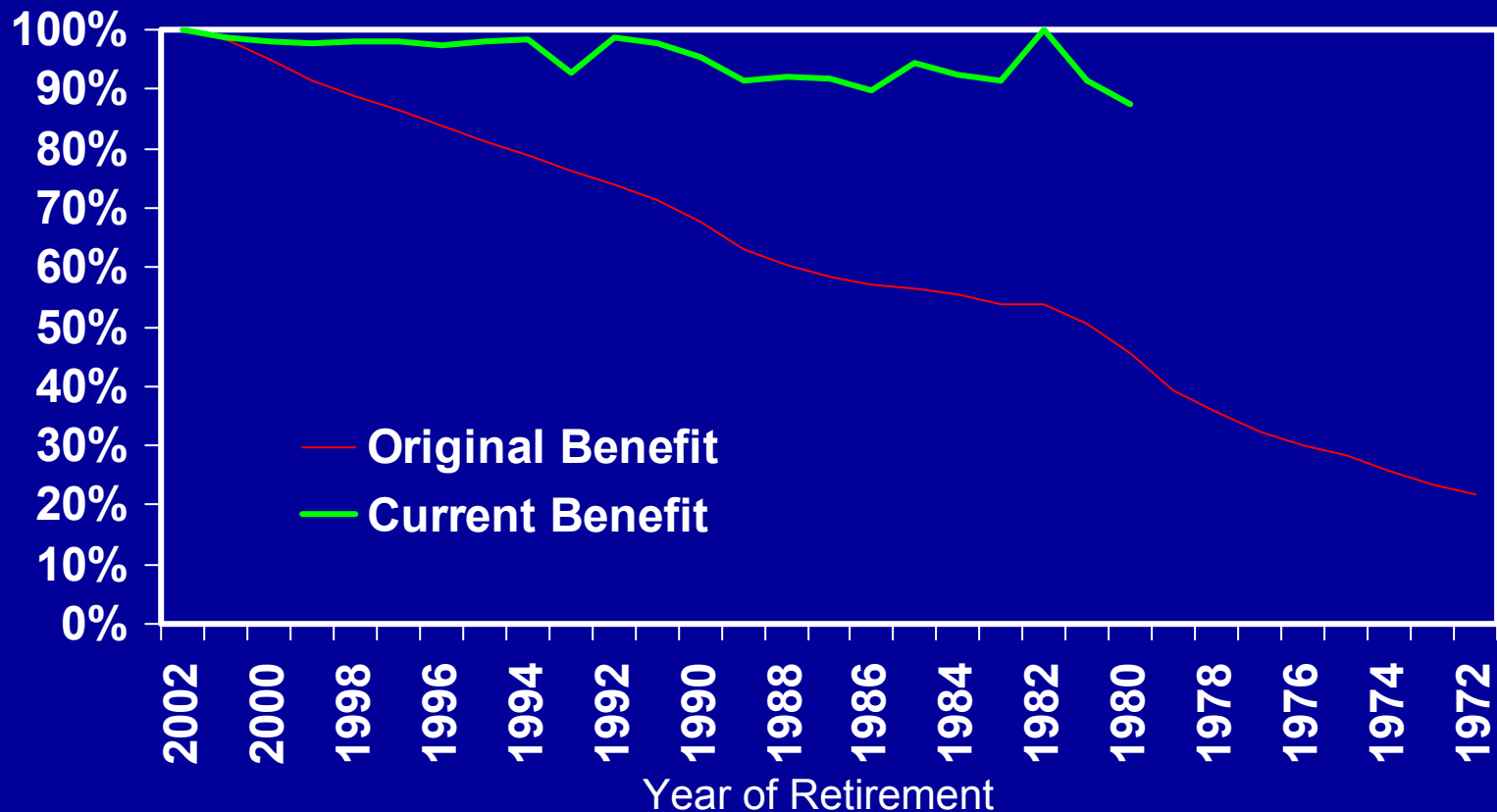
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

# Purchasing Power of TRS 1 Service Benefits in 2002



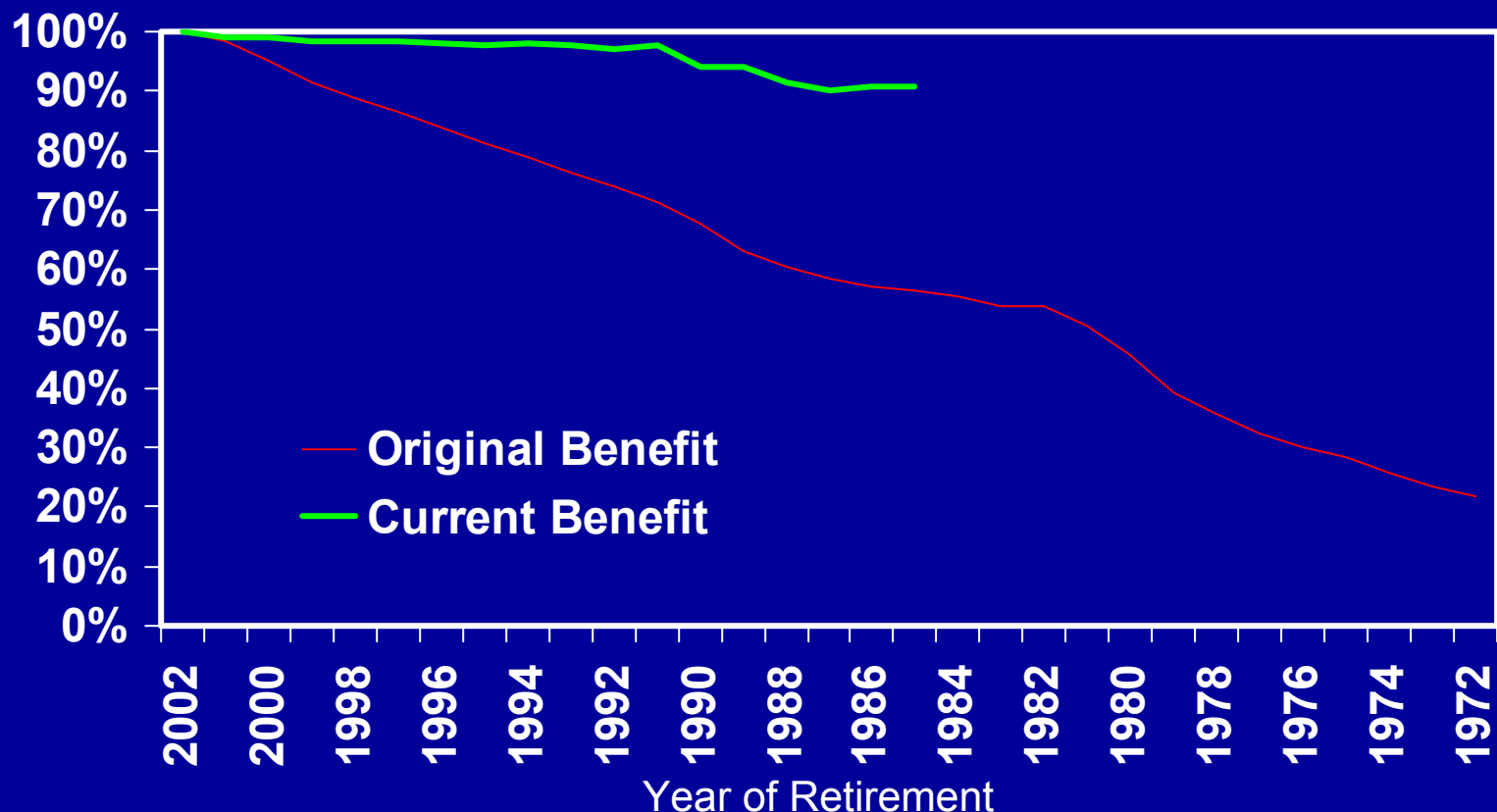
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

# Purchasing Power of PERS 2/3 Service Benefits in 2002



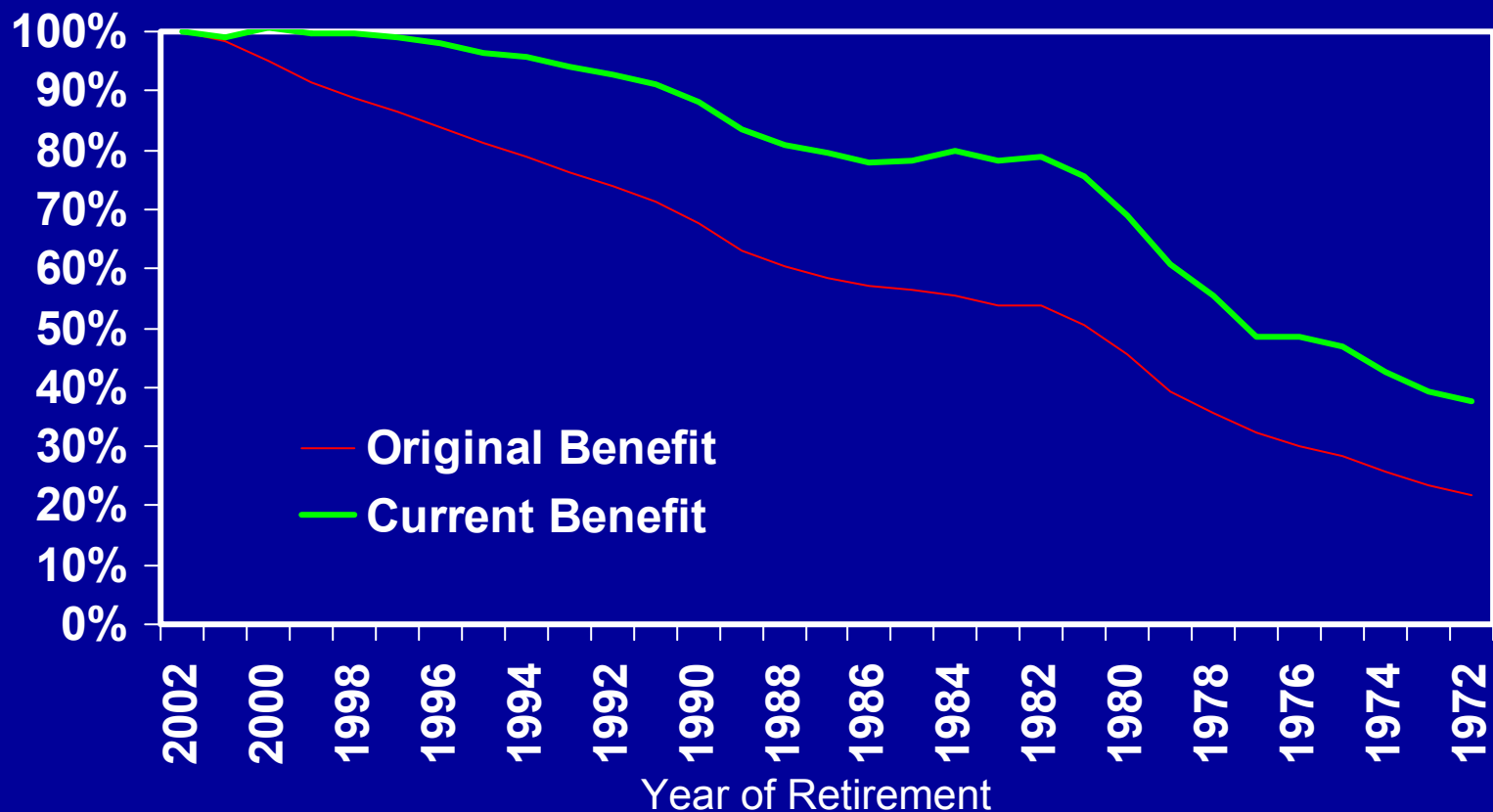
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

# Purchasing Power of TRS 2/3 Service Benefits in 2002



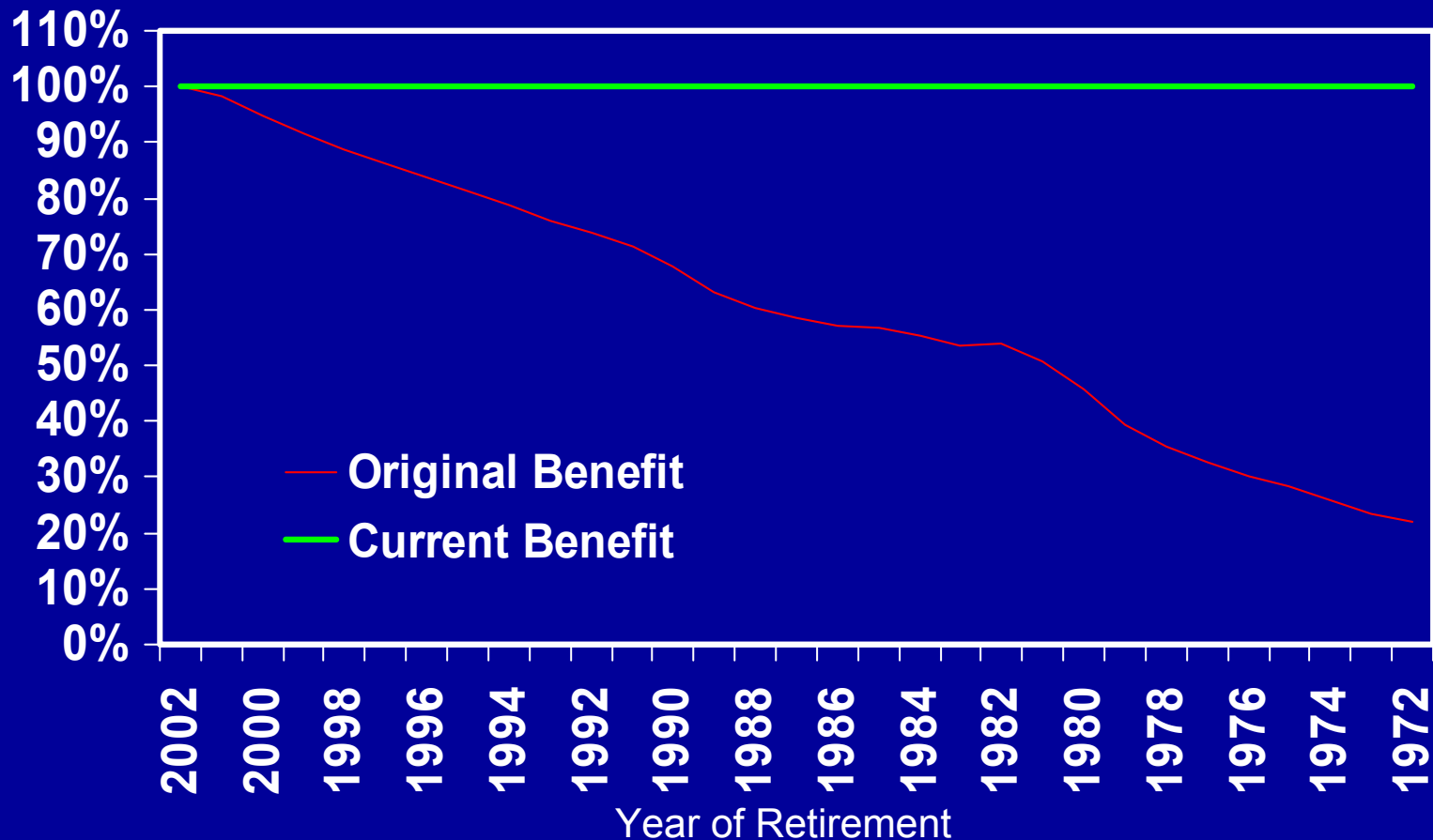
Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

# Purchasing Power of WSPRS Service Benefits in 2002



Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.

# Purchasing Power of LEOFF 1 Service Benefits in 2002



Based on consumer price increases as measured by the CPI-W for Seattle-Tacoma-Bremerton.



# **% of Total Expenditures by Category for Working and Retired**

|                  | Working | Retired |
|------------------|---------|---------|
| Food & Beverages | 14.1%   | 14.8%   |
| Housing          | 32.7%   | 33.2%   |
| Apparel          | 4.7%    | 3.2%    |
| Transportation   | 19.8%   | 17.1%   |
| Health care      | 4.3%    | 12.8%   |
| Entertainment    | 5.0%    | 4.7%    |
| Insurance        | 10.7%   | 3.3%    |
| Other            | 8.8%    | 10.9%   |

*Source: Consumer Expenditure Survey USDOL/BLS*

# Conclusion

- Inflation - The lower the better
- PERS 1 and TRS 1 - Gradual purchasing power losses may result in significant diminishment of benefit value
- Plans 2/3 - later retirement age trade-off for 3% COLA proves worthwhile

**END**

# Select Committee on Pension Policy

## Public Safety Subcommittee Report

(November 17, 2003)

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The subcommittee identified two categories of PERS Public Safety members, those:

- With law enforcement responsibilities; and
- Those without law enforcement responsibilities.

### **(1) Members with Law Enforcement Responsibilities**

Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public including, but not limited to the following (estimated counts in parentheses):

- State and county corrections officers (5,500)
- Park rangers (170)
- Liquor control enforcement officers (70)
- Gambling commission enforcement officers (80)

Inclusion in the law enforcement public safety category of PERS 2/3 must include all of the following:

- the responsibility to provide public protection of lives and property as a general duty of the job;
- a high degree of physical risk to one's own personal safety;
- authority and power to arrest, conduct criminal investigations, and enforce the criminal laws of the state of Washington;
- passage of a civil service examination or equivalent;
- completion of the Washington criminal justice training commission basic training course or equivalent; and
- the authority to carry a firearm as part of the job

### *Proposed Benefit Enhancements (with law enforcement responsibilities)*

- Unreduced retirement allowance at age 60 with 5 years of service
- 3% early retirement reduction factor (ERF) from age 60 if age 53 with at least 20 years of service
- Current disability benefit with an actuarial equivalent ERF from age 60

**(2) Members without Law Enforcement Responsibilities**

Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public including, but not limited to the following (estimated counts in parentheses):

- Commercial vehicle officers (60)
- State fire marshals (20)
- Public utility district - line workers (400)

Inclusion in the non law enforcement public safety category of PERS 2/3 must include the following:

- the responsibility to provide public protection of lives and property as a general duty of the job; and
- a high degree of physical risk to one's own personal safety.

*Proposed Benefit Enhancements (without law enforcement responsibilities)*

- Optional early retirement buy-down program

Under this program, employee and employer contributions to a qualified defined contribution plan (i.e, 401(k), 401(a), 457, etc.) could be rolled into the PERS 2/3 defined benefit trust fund to purchase a reduced early retirement reduction at the time of retirement. The amount of contributions needed at retirement would vary depending on the member's age of early retirement and the magnitude of the early retirement buy-down.

**(3) Significant Issues to be Resolved**

- Past service credit options (prospective service only?)
- Funding policy (type and level of cost sharing; socialize cost within PERS 2/3?)
- Administrative impacts and effective date

**(4) Cost Estimates**

Cost estimates on four distinct options are provided in the following tables (administrative expenses are not included). The options provided vary depending on the determination of two key parameters: (1) past service credit options and (2) plan model/funding options:

**Separate Public Safety Benefit Category Within PERS**

|   | <b>No Past Service</b>                              | <b>With Past Service</b>                            |
|---|---|---|
| <b>Increase in Employee/Employer Contribution Rates</b> | .04% - .05%   | .08% - .11%   |
| <b>Estimated 05-07 Costs</b><br>(in millions)           | GF-S = \$1.2 - \$1.5<br>Total = \$6.7 - \$7.6       | GF-S = \$2.6 - \$3.3<br>Total = \$13.5 - \$16.8     |
| <b>25 Year Cost</b><br>(in millions)                    | GF-S = \$33.4 - \$38.6<br>Total = \$174.7 - \$199.4 | GF-S = \$68.1 - \$85.5<br>Total = \$354.7 - \$439.4 |

**Separate Public Safety Plan**

|   | <b>No Past Service</b>                       | <b>With Past Service</b>                     |
|---|--|--|
| <b>Increase in Employee/Employer Contribution Rates</b> | .99% - 1.13%                                 | 2.01% - 2.49%                                |
| <b>Estimated 05-07 Costs</b><br>(in millions)           | GF-S = Unknown*<br>Total = \$6.7 - \$7.6     | GF-S = Unknown*<br>Total = \$13.5 - \$16.8   |
| <b>25 Year Cost</b><br>(in millions)                    | GF-S = Unknown*<br>Total = \$174.7 - \$199.4 | GF-S = Unknown*<br>Total = \$354.7 - \$439.4 |

\* GF-S percentages for these public safety employers are unknown.

# Select Committee on Pension Policy

## **LEOFF 1 Survivor Benefits**

*(November 10, 2003)*

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### **Issue**

The retirement benefit of a LEOFF 1 member who designates a spouse from a post-retirement marriage is actuarially reduced. Members propose allowing a spouse from a post-retirement marriage to receive an unreduced survivor benefit if they were married at least 5 years before the member's death and the allowance is deferred until the survivor is age 55.

### **Staff**

Robert Wm. Baker (360) 586-9237

### **Members Impacted**

Any of the 1,147 active, 22 terminated vested, or 7,987 retired members of this system who might marry or re-marry after their separation from service could be affected by this proposal.

### **Current Situation**

The surviving spouse of a LEOFF 1 retiree is eligible to receive a benefit equal to the retiree's monthly retirement allowance. A spouse must have been married to a LEOFF 1 member for one year prior to retirement, or separation from service, in order to qualify as a surviving spouse. The benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton CPI-W.

Members who choose to designate a spouse from a post-retirement marriage as a beneficiary accept an actuarial reduction of their benefit.

### **History**

HB 1715 and SB 5788 were introduced in the 2003 legislative session. These bills would have granted an unreduced benefit deferred to age 55 to a post-retirement spouse who had been married at least 5 years before the member's death. Neither received a hearing.

### **Policy Analysis**

It has been a matter of public policy that spouses were only able to share in a member's retirement benefit if they were married during the member's career. Law changes in 2001 and 2002 allowed members to designate spouses from post-retirement marriages only if such a designation were of no cost to the plans, i.e. the benefit was actuarially reduced.

### **Estimated Fiscal Impact**

See attachment

### **Bill Draft**

See attachment



# FISCAL NOTE

REQUEST NO.

|                             |       |          |              |
|-----------------------------|-------|----------|--------------|
| RESPONDING AGENCY:          | CODE: | DATE:    | BILL NUMBER: |
| Office of the State Actuary | 035   | 11/10/03 | Z-0888.1/04  |

## SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 1 (LEOFF 1) by providing survivor benefits to spouses of post-retirement marriages. To be eligible, spouses must have been married to the LEOFF 1 member for at least 5 years prior to the member's death and the survivor benefit is deferred to age 55.

Effective Date: 90 days after session.

## CURRENT SITUATION:

Currently, the surviving spouse of a LEOFF 1 retiree is eligible to receive a survivor benefit which is equal to the retiree's monthly retirement allowance. The survivor benefit includes a yearly cost-of-living-adjustment for the full amount of any increase in the Seattle-Tacoma-Bremerton Consumer Price Index for Wage Earners and Clerical Workers (CPI-W).

A spouse must have been married to a LEOFF 1 member for one year prior to retirement, or separation from service, in order to qualify as a surviving spouse and receive the unreduced benefit. A member who had not been married prior to retirement may designate a spouse from a post-retirement marriage and accept an actuarially reduced benefit.

## MEMBERS IMPACTED:

Any of the 1,147 active, 22 terminated vested, or 7,987 retired members of this system who might marry or re-marry after their separation from service could be affected by this bill.

The eligible spouse of a retired member receives the same benefit as the retired member. The eligible spouse of a deferred vested member receives the same benefit as the member would have received at age 50.

The average retirement benefit is currently \$ 2,730 a month.

## ASSUMPTIONS:

Currently, 60% of members die with an eligible spouse. For purposes of this bill, we have assumed an additional 20% (or half of the remainder) would die with an eligible spouse due to the expanded eligibility for survivor benefits under this bill.

## FISCAL IMPACT:

### Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

| <b>Law Enforcement Officers' and Fire Fighters' Retirement System</b>   |                |                 |              |
|---|----------------|-----------------|--------------|
| <i>(Dollars in Millions)</i>  | <b>Current</b> | <b>Increase</b> | <b>Total</b> |
| <b>Actuarial Present Value of Projected Benefits</b><br>(The Value of the Total Commitment to all Current Members)            | \$4,338        | \$ 243          | \$ 4,581     |
| <b>Unfunded Actuarial Accrued Liability</b><br>(The Portion of the Plan 1 Liability that is Amortized at 2024)                | \$(757)        | \$ 243          | \$ ( 514)    |
| <b>Unfunded Liability (PBO)</b><br>(The Value of the Total Commitment to all Current Members<br>Attributable to Past Service) | \$(830)        | \$ 240          | \$ (590)     |
| <b>Required Contribution Rate (state)</b>   | (5.04)%        | <b>1.38%</b>    | (3.66)%      |

### State Actuary's Comments:

There is no immediate fiscal impact on the System while the plan remains fully funded. The required contribution rate is below 0% before and after this proposed changed.

A recent survey of 10% of the retired member and beneficiary population of fire fighters from LEOFF 1 indicated that 11% have married since retirement.

# LEOFF 1 Survivor Benefits

1       AN ACT Relating to extending death benefits to certain surviving  
2 spouses under the law enforcement officers' and fire fighters'  
3 retirement system; and amending RCW 41.26.160 and 41.26.161.

4       BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5       **Sec. 1.** RCW 41.26.160 and 2002 c 158 s 1 are each amended to read  
6 as follows:

7       (1) In the event of the duty connected death of any member who is  
8 in active service, or who has vested under the provisions of RCW  
9 41.26.090 with twenty or more service credit years of service, or who  
10 is on duty connected disability leave or retired for duty connected  
11 disability, the surviving spouse shall become entitled, subject to RCW  
12 41.26.162(2), to receive a monthly allowance equal to fifty percent of  
13 the final average salary at the date of death if active, or the amount  
14 of retirement allowance the vested member would have received at age  
15 fifty, or the amount of the retirement allowance such retired member  
16 was receiving at the time of death if retired for duty connected  
17 disability. The amount of this allowance will be increased five  
18 percent of final average salary for each child as defined in RCW  
19 41.26.030(7), subject to a maximum combined allowance of sixty percent

1 of final average salary: PROVIDED, That if the child or children is or  
2 are in the care of a legal guardian, payment of the increase  
3 attributable to each child will be made to the child's legal guardian  
4 or, in the absence of a legal guardian and if the member has created a  
5 trust for the benefit of the child or children, payment of the increase  
6 attributable to each child will be made to the trust.

7 (2)(a) Subject to (b) of this subsection, if at the time of the  
8 duty connected death of a vested member with twenty or more service  
9 credit years of service as provided in subsection (1) of this section  
10 or a member retired for duty connected disability, the surviving spouse  
11 has not been lawfully married to such member for one year prior to  
12 retirement or separation from service if a vested member, the surviving  
13 spouse shall not be eligible to receive the benefits under this  
14 section(~~(:—PROVIDED, That))~~).

15 (b)(i) If the surviving spouse has been lawfully married to a  
16 member under (a) of this subsection for five years prior to the  
17 member's death, the surviving spouse, when at least age fifty-five, is  
18 eligible to receive the benefits under this section.

19 (ii) If a member dies as a result of a disability incurred in the  
20 line of duty, then if he or she was married at the time he or she was  
21 disabled, the surviving spouse shall be eligible to receive the  
22 benefits under this section.

23 (3) If there be no surviving spouse eligible to receive benefits at  
24 the time of such member's duty connected death, then the child or  
25 children of such member shall receive a monthly allowance equal to  
26 thirty percent of final average salary for one child and an additional  
27 ten percent for each additional child subject to a maximum combined  
28 payment, under this subsection, of sixty percent of final average  
29 salary. When there cease to be any eligible children as defined in RCW  
30 41.26.030(7), there shall be paid to the legal heirs of the member the  
31 excess, if any, of accumulated contributions of the member at the time  
32 of death over all payments made to survivors on his or her behalf under  
33 this chapter: PROVIDED, That payments under this subsection to  
34 children shall be prorated equally among the children, if more than  
35 one. If the member has created a trust for the benefit of the child or  
36 children, the payment shall be made to the trust.

37 (4) In the event that there is no surviving spouse eligible to

1 receive benefits under this section, and that there be no child or  
2 children eligible to receive benefits under this section, then the  
3 accumulated contributions shall be paid to the estate of the member.

4 (5) If a surviving spouse receiving benefits under this section  
5 remarries after June 13, 2002, the surviving spouse shall continue to  
6 receive the benefits under this section.

7 (6) If a surviving spouse receiving benefits under the provisions  
8 of this section thereafter dies and there are children as defined in  
9 RCW 41.26.030(7), payment to the spouse shall cease and the child or  
10 children shall receive the benefits as provided in subsection (3) of  
11 this section.

12 (7) The payment provided by this section shall become due the day  
13 following the date of death and payments shall be retroactive to that  
14 date.

15 **Sec. 2.** RCW 41.26.161 and 2002 c 158 s 2 are each amended to read  
16 as follows:

17 (1) In the event of the nonduty connected death of any member who  
18 is in active service, or who has vested under the provisions of RCW  
19 41.26.090 with twenty or more service credit years of service, or who  
20 is on disability leave or retired, whether for nonduty connected  
21 disability or service, the surviving spouse shall become entitled,  
22 subject to RCW 41.26.162(2), to receive a monthly allowance equal to  
23 fifty percent of the final average salary at the date of death if  
24 active, or the amount of retirement allowance the vested member would  
25 have received at age fifty, or the amount of the retirement allowance  
26 such retired member was receiving at the time of death if retired for  
27 service or nonduty connected disability. The amount of this allowance  
28 will be increased five percent of final average salary for each child  
29 as defined in RCW 41.26.030(7), subject to a maximum combined allowance  
30 of sixty percent of final average salary: PROVIDED, That if the child  
31 or children is or are in the care of a legal guardian, payment of the  
32 increase attributable to each child will be made to the child's legal  
33 guardian or, in the absence of a legal guardian and if the member has  
34 created a trust for the benefit of the child or children, payment of  
35 the increase attributable to each child will be made to the trust.

36 (2) If at the time of the death of a vested member with twenty or  
37 more service credit years of service as provided in subsection (1) of

1 this section or a member retired for service or disability, the  
2 surviving spouse has not been lawfully married to such member for one  
3 year prior to retirement or separation from service if a vested member,  
4 the surviving spouse shall not be eligible to receive the benefits  
5 under this section. However, if the surviving spouse has been lawfully  
6 married to such member for five years prior to the member's death, the  
7 surviving spouse, when at least age fifty-five, is eligible to receive  
8 the benefits under this section.

9 (3) If there be no surviving spouse eligible to receive benefits at  
10 the time of such member's death, then the child or children of such  
11 member shall receive a monthly allowance equal to thirty percent of  
12 final average salary for one child and an additional ten percent for  
13 each additional child subject to a maximum combined payment, under this  
14 subsection, of sixty percent of final average salary. When there cease  
15 to be any eligible children as defined in RCW 41.26.030(7), there shall  
16 be paid to the legal heirs of the member the excess, if any, of  
17 accumulated contributions of the member at the time of death over all  
18 payments made to survivors on his or her behalf under this chapter:  
19 PROVIDED, That payments under this subsection to children shall be  
20 prorated equally among the children, if more than one. If the member  
21 has created a trust for the benefit of the child or children, the  
22 payment shall be made to the trust.

23 (4) In the event that there is no surviving spouse eligible to  
24 receive benefits under this section, and that there be no child or  
25 children eligible to receive benefits under this section, then the  
26 accumulated contributions shall be paid to the estate of said member.

27 (5) If a surviving spouse receiving benefits under this section  
28 remarries after June 13, 2002, the surviving spouse shall continue to  
29 receive the benefits under this section.

30 (6) If a surviving spouse receiving benefits under the provisions  
31 of this section thereafter dies and there are children as defined in  
32 RCW 41.26.030(7), payment to the spouse shall cease and the child or  
33 children shall receive the benefits as provided in subsection (3) of  
34 this section.

35 (7) The payment provided by this section shall become due the day  
36 following the date of death and payments shall be retroactive to that

1 date.

--- END ---

# Select Committee on Pension Policy

## Mandatory Retirement Age in State Patrol, 60 to 65

*(November 10, 2003)*

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### **Issue**

The Washington State Patrol Troopers Association has requested that the mandatory retirement age in the Washington State Patrol Retirement System be increased from age 60 to age 65.

### **Staff**

Robert Wm. Baker (360) 586-9237

### **Members Impacted**

Any of the 1,035 active members of the Washington State Patrol Retirement system would be impacted by such a change if they chose to work beyond age 60.

### **Current Situation**

The Washington State Patrol Retirement System is the only open state-administered system with a mandatory retirement age. All members, except the Chief, are required to retire at age 60. The Chief may serve until age 65.

### **History**

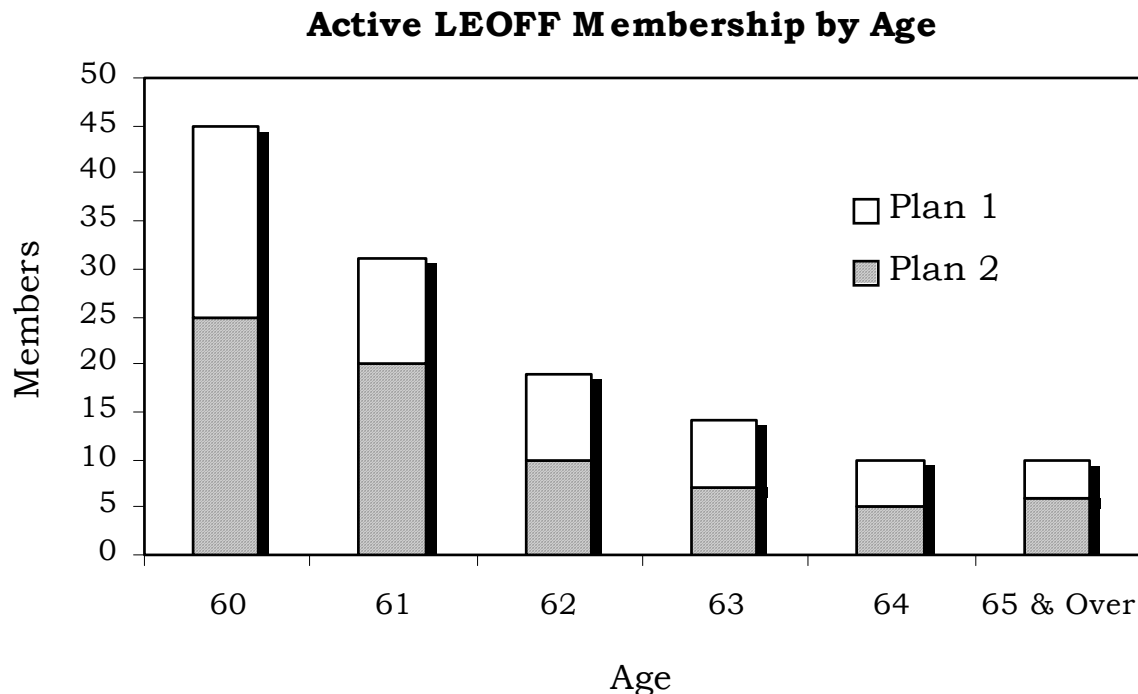
HB 1323 was introduced in the 2003 session. It would have increased the mandatory retirement age in the Washington State Patrol Retirement System to age 65. The bill did not move out of committee.

### **Policy Analysis**

The only other plans administered by the State that have mandatory retirement are the Judges and the Judicial plans. The Judges plan closed to new members in 1971 and the Judicial plan closed to new members in 1988. In both plans mandatory retirement is constitutionally required at age 75.



The other public safety-related plans in Washington State are the Law Enforcement Officer's and Fire Fighter's (LEOFF) plans. Neither LEOFF 1 or LEOFF 2 have mandatory retirement ages. There are currently 52 active members of LEOFF 1 between age 60 and 64, and another 4 active members age 65 or older. There are 67 active LEOFF 2 members between age 60 and 64, and 6 age 65 or older (see below Figure).



### Stakeholder Input

See attachment

### Estimated Fiscal Impact

See attachment

### Bill Draft

See attachment



## WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200 , OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

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September 16, 2003

The Honorable Chair & Members  
Select Committee on Pension Policy  
2420 Bristol Court SW, Suite 101  
Olympia, WA 98504

Dear Members,

On behalf of the active and retired members of the Washington State Patrol Troopers Association the follow are issues relating to the Washington State Patrol Retirement Systems Plan 1 and Plan 2 that we would like addressed by the Select Committee for 2004 Legislative consideration.

1. During the 2003 Legislative Session HB 1323, an act relating to the mandatory retirement age of WSPRS Plan 1 and Plan 2, was introduced and presented to the House Appropriations Committee. The bill extends the current mandatory retirement from age 60 to age 65. Both WSPRS 1 & 2 are service-based systems allowing for a retirement benefit after 25 years-of service. The age 60 mandatory limit was established when Plan 1 had an age 30-entry limit. That limit was removed many years ago and as a result officers have been hired at ages over 30 and in some cases over 40, not allowing the member to serve 25 years before mandatory retirement. We feel the time has come to extend the mandatory limit to age 65.
2. The 2003 Legislature passed HB 1519, an act relating to death benefits for members of TRS, School Employees' Retirement System, and PERS. The new law provides for a survivor benefit paid to a survivor of a member killed in the "course of employment that is subject to an early retirement actuarial reduction. We propose that this same benefit be applied to members of WSPRS Plan 2. Currently the Death in Service Survivor Benefit for State Patrol Officers in Plan 2 with less than 10 years service the beneficiary receives only accumulated contributions to the system. The beneficiaries of officers killed in the line of duty should be provided with a benefit that is not actuarially reduced or a lump sum of contributions, but a monthly benefit as provided in HB 1519 or identical to that provided to WSPRS Plan 1 members.

Your attention to these issues will be greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert C. Thurston".

Robert C. Thurston  
President

CC: Rick Jensen, Governmental Affairs

# FISCAL NOTE

REQUEST NO.

|                             |       |          |              |
|-----------------------------|-------|----------|--------------|
| RESPONDING AGENCY:          | CODE: | DATE:    | BILL NUMBER: |
| Office of the State Actuary | 035   | 11/10/03 | Z-0891.1/04  |

## SUMMARY OF BILL:

This bill impacts the Washington State Patrol Retirement System (WSPRS) by increasing the mandatory retirement age from 60 to 65.

Effective Date: 90 days after session.

## CURRENT SITUATION:

Currently, members of the WSPRS must retire at 60 years of age. Only the Chief of the Washington State Patrol may serve after age 60. The WSPRS is the only open state-administered retirement system that has a mandatory retirement age.

Members who retire with at least 25 years of service are eligible for up to 5 years of prior military service.

## MEMBERS IMPACTED:

We estimate that any of 1,035 active members of this system could be affected by this bill if they desired to work beyond age 60.

This bill would also allow active members who will complete 25 years of service after age 60 (current mandatory retirement age) to earn prior military service credit if eligible.

## FISCAL IMPACT:

Currently few members work to age 60. In most cases, the actuarial present value of an unreduced pension at age 60 is greater than the value of an increased pension benefit commencing after age 60 (increased for salary and service beyond age 60).

## Actuarial Determinations:

The bill will impact the actuarial funding of the system by decreasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

| <i>(Dollars in Millions)</i>  |  | <b>Washington State Patrol Retirement System:</b> |                 |              |
|---|--|---|-----------------|--------------|
|   |  | <b>Current</b>                                    | <b>Increase</b> | <b>Total</b> |
| <b>Actuarial Present Value of Projected Benefits</b>                                    |  | \$686   | \$(2)           | \$684        |
| (The Value of the Total Commitment to all Current Members)                              |  |   |                 |              |
| <b>Unfunded Actuarial Accrued Liability</b>   |  | N/A   | N/A             | N/A          |
| (The Portion of the Plan 1 Liability that is Amortized at 2024)                         |  |   |                 |              |
| <b>Unfunded Liability (PBO)</b>   |  | \$(180)   | \$(2)           | \$(182)      |
| (The Value of the Total Commitment to all Current Members Attributable to Past Service) |  |   |                 |              |
| <b>Required Contribution Rate</b>   |  | (3.03)%   | <b>(.22)%</b>   | (3.25)%      |

#### **Fiscal Budget Determinations:**

None while the plan remains fully funded. In other words, the actuarial value of assets exceeds the actuarial present value of projected benefits before and after this proposed benefit change.

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Washington State Patrol Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

The retirement rates for LEOFF 2 were used for ages 60 to 65: (33% for age 60, 37% for ages 61 to 63, 48% age 64, 100% for age 65)

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Unfunded Actuarial Accrued Liability (UAAL):** The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

## Mandatory Retirement Age in State Patrol, 60 to 65

1        AN ACT Relating to establishing the retirement age for members of  
2        the Washington state patrol retirement system; and amending RCW  
3        43.43.250.

4        BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5        **Sec. 1.** RCW 43.43.250 and 1982 1st ex.s. c 52 s 26 are each  
6        amended to read as follows:

7        (1)(a) Until July 1, 2004, any member who has attained the age of  
8        sixty years shall be retired on the first day of the calendar month  
9        next succeeding that in which ((said)) the member ((shall have)) has  
10       attained the age of sixty((~~PROVIDED, That~~)). However, the  
11       requirement to retire at age sixty ((shall)) does not apply to a member  
12       serving as chief of the Washington state patrol.

13       (b) Beginning July 1, 2004, any active member who has obtained the  
14       age of sixty-five years shall be retired on the first day of the  
15       calendar month next succeeding that in which the member has attained  
16       the age of sixty-five. However, the requirement to retire at age  
17       sixty-five does not apply to a member serving as chief of the  
18       Washington state patrol.

1       (2) Any member who has completed twenty-five years of credited  
2 service or has attained the age of fifty-five may apply to retire as  
3 provided in RCW 43.43.260, by completing and submitting an application  
4 form to the department, setting forth at what time the member desires  
5 to be retired.

--- END ---



# Select Committee on Pension Policy

## State Patrol Death-in-Service Survivor Benefit

*(November 12, 2003)*

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|                          |   |
|--------------------------|---|
| <b>Issue</b>             | The Washington State Patrol Troopers Association has requested that the death-in-service survivor benefit for Washington State Patrol Retirement System (WSPRS) plan 2 beneficiaries be the unreduced earned benefit of the member.   |
| <b>Staff</b>             | Robert Wm. Baker (360) 586-9237   |
| <b>Members Impacted</b>  | All members of the Washington State Patrol Retirement System who become members after January 1, 2003 would be affected by this change.   |
| <b>Current Situation</b> | <p>Beneficiaries of a WSPRS plan 2 member who dies in the line of duty, is not eligible to retire, and has less than 10 years of service, receive a refund of the member's contributions plus interest.</p> <p>Beneficiaries of a WSPRS 2 member who dies in the line of duty, is eligible to retire or has at least 10 years of service, receive either:</p> <ul style="list-style-type: none"><li>• A refund of 150% of the member's contributions plus interest; or</li><li>• A joint and 100% retirement allowance actuarially reduced from first retirement eligibility (benefit includes an annual CPI-based COLA of up to 3%).</li></ul> |

Survivors of law enforcement officers who die in the line of duty are eligible to receive a \$150,000 lump-sum Federal benefit.

Survivors are also eligible for tax-free benefits from Labor and Industries of up to 120% of the state annual average wage (\$37,940 in 2002).

### **Policy Analysis**

Chapter 155, Laws of 2003 provides that the retirement benefits of PERS, SERS, and TRS members killed in the course of employment are not actuarially reduced, but are rather calculated as an unreduced immediate benefit.

Survivors of active LEOFF 1 members receive 50% of the member's final average salary at the date of death.

Survivors of active LEOFF 2 members who had less than 10 years of service and were not eligible to retire receive a refund of the member's contributions plus interest.

Survivors of active LEOFF 2 members who had at least 10 years of service or were eligible to retire receive either:

- A refund of 150% of the member's contributions plus interest, or
- a monthly allowance calculated as a joint and 100% survivor benefit actuarially reduced from age 53.

### **Stakeholder Input**

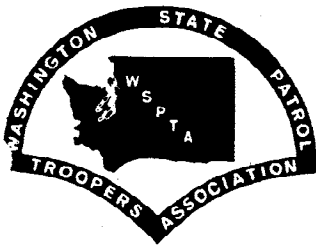
See attachment

### **Estimated Fiscal Impact**

See attachment

### **Bill Draft**

See attachment



## WASHINGTON STATE PATROL TROOPERS ASSOCIATION

200 UNION AVE. SE STE. 200 , OLYMPIA, WASHINGTON 98501 (360) 704-7530 FAX (360) 704-7527

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September 16, 2003

The Honorable Chair & Members  
Select Committee on Pension Policy  
2420 Bristol Court SW, Suite 101  
Olympia, WA 98504

Dear Members,

On behalf of the active and retired members of the Washington State Patrol Troopers Association the follow are issues relating to the Washington State Patrol Retirement Systems Plan 1 and Plan 2 that we would like addressed by the Select Committee for 2004 Legislative consideration.

1. During the 2003 Legislative Session HB 1323, an act relating to the mandatory retirement age of WSPRS Plan 1 and Plan 2, was introduced and presented to the House Appropriations Committee. The bill extends the current mandatory retirement from age 60 to age 65. Both WSPRS 1 & 2 are service-based systems allowing for a retirement benefit after 25 years-of service. The age 60 mandatory limit was established when Plan 1 had an age 30-entry limit. That limit was removed many years ago and as a result officers have been hired at ages over 30 and in some cases over 40, not allowing the member to serve 25 years before mandatory retirement. We feel the time has come to extend the mandatory limit to age 65.
2. The 2003 Legislature passed HB 1519, an act relating to death benefits for members of TRS, School Employees' Retirement System, and PERS. The new law provides for a survivor benefit paid to a survivor of a member killed in the "course of employment that is subject to an early retirement actuarial reduction. We propose that this same benefit be applied to members of WSPRS Plan 2. Currently the Death in Service Survivor Benefit for State Patrol Officers in Plan 2 with less than 10 years service the beneficiary receives only accumulated contributions to the system. The beneficiaries of officers killed in the line of duty should be provided with a benefit that is not actuarially reduced or a lump sum of contributions, but a monthly benefit as provided in HB 1519 or identical to that provided to WSPRS Plan 1 members.

Your attention to these issues will be greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert C. Thurston".

Robert C. Thurston  
President

CC: Rick Jensen, Governmental Affairs

# FISCAL NOTE

REQUEST NO.

| RESPONDING AGENCY:          | CODE: | DATE:    | BILL NUMBER: |
|-----------------------------|-------|----------|--------------|
| Office of the State Actuary | 035   | 11/12/03 | Z-0873.1/04  |

## SUMMARY OF BILL:

This bill impacts the Washington State Patrol (WSP) Retirement System Plan 2 by providing that the survivor benefit of a member killed in the course of employment, after having accumulated at least 10 years of service, is not subject to an early retirement actuarial reduction. This bill applies to any member killed in the course of employment, as determined by the director of the Department of Labor and Industries, on or after the effective date of this act.

Effective Date: 90 days after session.

## CURRENT SITUATION:

Currently, a survivor of an active member who dies with less than 10 years of service credit is eligible to receive a cash refund of the member's contributions plus interest. If an active member dies with 10 or more years of service credit, their beneficiary or surviving spouse is eligible to receive either a cash refund of 150% of the member's contributions plus interest, or a monthly benefit actuarially reduced to reflect a joint and 100% survivor option and further reduced to reflect the difference in the member's age at death and the age of full retirement eligibility.

## MEMBERS IMPACTED:

All the future active members of WSP 2 could potentially be affected by this bill. Our experience data, however, indicate that few would die in the course of employment and, as a result, few survivors would actually receive this enhanced benefit.

We estimate that 20 percent of deaths are duty-related deaths in WSP 2. Not all of these deaths, however, would occur after the member has earned at least 10 years of service (the service needed to receive this benefit). A percentage of the survivors of these duty-related deaths will elect to take the cash refund of the member's contributions plus interest instead of this improved benefit. The survivor of a member who dies after being eligible for an unreduced benefit would not be affected as well.

**FISCAL IMPACT:**

None while the plan remains fully funded. In other words, the actuarial value of assets exceeds the actuarial present value of projected benefits before and after this proposed benefit change.

As of our most recent valuation date, there were no plan 2 members in the WSPRS. As plan 2 members enter the plan and ultimately replace the existing plan 1 members, the long-term plan cost would increase by .04% of pay (in total) and by .02% of pay for members.

# State Patrol Death-in-Service Survivor Benefit

1       AN ACT Relating to death benefits for members of the Washington  
2 state patrol retirement system plan 2; and amending RCW 43.43.295.

3       BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

4       **Sec. 1.** RCW 43.43.295 and 2003 c 294 s 15 are each amended to read  
5 as follows:

6       (1) For members commissioned on or after January 1, 2003, except as  
7 provided in RCW 11.07.010, if a member or a vested member who has not  
8 completed at least ten years of service dies, the amount of the  
9 accumulated contributions standing to such member's credit in the  
10 retirement system at the time of such member's death, less any amount  
11 identified as owing to an obligee upon withdrawal of accumulated  
12 contributions pursuant to a court order filed under RCW 41.50.670,  
13 shall be paid to the member's estate, or such person or persons, trust,  
14 or organization as the member shall have nominated by written  
15 designation duly executed and filed with the department. If there be  
16 no such designated person or persons still living at the time of the  
17 member's death, such member's accumulated contributions standing to  
18 such member's credit in the retirement system, less any amount  
19 identified as owing to an obligee upon withdrawal of accumulated

1 contributions pursuant to a court order filed under RCW 41.50.670,  
2 shall be paid to the member's surviving spouse as if in fact such  
3 spouse had been nominated by written designation, or if there be no  
4 such surviving spouse, then to such member's legal representatives.

5 (2) If a member who is eligible for retirement or a member who has  
6 completed at least ten years of service dies, the surviving spouse or  
7 eligible child or children shall elect to receive either:

8 (a) A retirement allowance computed as provided for in RCW  
9 43.43.260, actuarially reduced, except under subsection (4) of this  
10 section, by the amount of any lump sum benefit identified as owing to  
11 an obligee upon withdrawal of accumulated contributions pursuant to a  
12 court order filed under RCW 41.50.670 and actuarially adjusted to  
13 reflect a joint and one hundred percent survivor option under RCW  
14 43.43.278 and if the member was not eligible for normal retirement at  
15 the date of death a further reduction from age fifty-five or when the  
16 member could have attained twenty-five years of service, whichever is  
17 less; if a surviving spouse who is receiving a retirement allowance  
18 dies leaving a child or children of the member under the age of  
19 majority, then such child or children shall continue to receive an  
20 allowance in an amount equal to that which was being received by the  
21 surviving spouse, share and share alike, until such child or children  
22 reach the age of majority; if there is no surviving spouse eligible to  
23 receive an allowance at the time of the member's death, such member's  
24 child or children under the age of majority shall receive an allowance  
25 share and share alike calculated under this section making the  
26 assumption that the ages of the spouse and member were equal at the  
27 time of the member's death; or

28 (b)(i) The member's accumulated contributions, less any amount  
29 identified as owing to an obligee upon withdrawal of accumulated  
30 contributions pursuant to a court order filed under RCW 41.50.670; or

31 (ii) If the member dies, one hundred fifty percent of the member's  
32 accumulated contributions, less any amount identified as owing to an  
33 obligee upon withdrawal of accumulated contributions pursuant to a  
34 court order filed under RCW 41.50.670. Any accumulated contributions  
35 attributable to restorations made under RCW 41.50.165(2) shall be  
36 refunded at one hundred percent.

37 (3) If a member who is eligible for retirement or a member who has  
38 completed at least ten years of service dies, and is not survived by a

1 spouse or an eligible child, then the accumulated contributions  
2 standing to the member's credit, less any amount identified as owing to  
3 an obligee upon withdrawal of accumulated contributions pursuant to a  
4 court order filed under RCW 41.50.670, shall be paid:

5 (a) To an estate, a person or persons, trust, or organization as  
6 the member shall have nominated by written designation duly executed  
7 and filed with the department; or

8 (b) If there is no such designated person or persons still living  
9 at the time of the member's death, then to the member's legal  
10 representatives.

11 (4) The retirement allowance of a member who is killed in the  
12 course of employment, as determined by the director of the department  
13 of labor and industries, is not subject to an actuarial reduction.

--- END ---



# Select Committee on Pension Policy

## Age 66 COLA

*(November 10, 2003)*

---

|                          |   |
|--------------------------|---|
| <b>Issue</b>             | Allowing PERS 1 and TRS 1 retirees who have been retired for at least one year to begin receiving the Uniform COLA on July 1 of the calendar year in which they turn age 66.  |
| <b>Staff</b>             | Robert Wm. Baker (360) 586-9237   |
| <b>Members Impacted</b>  | Approximately 25,000 TRS 1 and 37,000 PERS 1 members who are under age 65 would be affected by this bill.   |
| <b>Current Situation</b> | The current Uniform COLA provisions require PERS 1 and TRS 1 members to have been retired one year and to be at least age 66 on July 1 <sup>st</sup> to be eligible for the adjustment paid on July 1 <sup>st</sup> .   |
| <b>History</b>           | The Joint Committee on Pension Policy (JCPP) recommended HB 1197 and SB 5097 to the 2003 legislature. This legislation would have allowed PERS 1 and TRS 1 members, who had been retired for at least one year, to begin receiving the Uniform COLA on July 1 <sup>st</sup> of the calendar year in which they reached age 66. Neither bill received a hearing. |

### Policy Analysis

PERS 1 or TRS 1 members who have been retired at least one year, and whose birthdate is from January 1<sup>st</sup> to July 1<sup>st</sup>, receive their first COLA on July 1<sup>st</sup> of the calendar year in which they turn age 66 -- at the latest, 6 months after reaching age 66. Members who have been retired at least one year, and whose birthdate is from July 2<sup>nd</sup> to December 31<sup>st</sup>, receive their first COLA anywhere from 6 months to almost 1 year after reaching age 66.

**Estimated Fiscal Impact**

See attachment

**Bill Draft**

See attachment

# FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

**Office of the State Actuary**

**035**

**11/10/03**

**Z-0875.1/04**

## SUMMARY:

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 by allowing those who have been retired for one year, and will be at least age 66 by December 31<sup>st</sup>, to receive the annual increase paid on July 1<sup>st</sup> of that year.

Effective Date: July 1, 2004.

## CURRENT SITUATION:

The current provision requires the member to have been retired one year and to be at least age 66 on July 1<sup>st</sup> to be eligible for the annual increase paid that year. This means that some members will get their first COLA as early as age 66, while others will not get theirs until age 67. This bill would change the age eligibility so that members would get their COLA as early as age 65½, but no later than age 66½. This bill does not change the requirement that the member must be retired at least one year to receive the initial annual increase.

## MEMBERS IMPACTED:

We estimate that 50% of the members who are under age 65 would be affected by this bill.

| <b>TRS Plan 1</b>   | <b>Under Age 65</b> | <b>Total</b> |
|---------------------|---------------------|--------------|
| Receiving a Benefit | 10,964              | 33,148       |
| Actives             | 12,259              | 12,456       |
| Vested Terminated   | 1,785               | 1,819        |

| <b>PERS Plan 1</b>  | <b>Under Age 65</b> | <b>Total</b> |
|---------------------|---------------------|--------------|
| Receiving a Benefit | 11,918              | 54,006       |
| Actives             | 20,934              | 21,737       |
| Vested Terminated   | 3,108               | 3,280        |

We estimate that for a typical member impacted by this bill, the initial annual increase would be paid one year earlier. The annual increase for July 1, 2004 is \$1.21 per month for each year of service. The annual increase is increased by 3% each year and by future "gain-sharing" amounts. The typical recipient of the Uniform COLA has 20 years of service in PERS and 25 years of service in TRS.

## FISCAL IMPACT:

### Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

#### Teachers' Retirement System and Public Employees' Retirement System (Plan 1):

| <i>(Dollars in Millions)</i>   | System: | Current   | Increase | Total     |
|--|---------|-----------|----------|-----------|
| <b>Actuarial Present Value of Projected Benefits</b>   | PERS 1  | \$ 12,532 | \$ 34    | \$ 12,566 |
| <i>(The Value of the Total Commitment to all Current Members)</i>                              | TRS 1   | 10,209    | 29       | 10,238    |
| <br><b>Unfunded Actuarial Accrued Liability</b>  | PERS 1  | \$ 1,393  | \$ 34    | \$ 1,427  |
| <i>(The Portion of the Plan 1 Liability that is Amortized at 2024)</i>                         | TRS 1   | 586       | 29       | 615       |
| <br><b>Unfunded Liability (PBO)</b>  | PERS 1  | \$ 925    | \$ 31    | \$ 956    |
| <i>(The Value of the Total Commitment to all Current Members Attributable to Past Service)</i> | TRS 1   | 236       | 28       | 264       |

|  |      |       |      |       |
|--|------|-------|------|-------|
| <b>Required Contribution Rate - Employer/State</b> | PERS | 3.78% | .03% | 3.81% |
|  | SERS | 3.64% | .03% | 3.67% |
|  | TRS  | 3.19% | .05% | 3.24% |

*(All of the above increases are increases in the plan 1 uaal rate paid by all employers for each of their plan 1, 2 and 3 members. There is no increase in the normal cost rate)*

### Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

|   | <u>PERS</u>   | <u>TRS</u>    | <u>SERS</u>  |
|---|---------------|---------------|--------------|
| <b>Increase in Contribution Rates: Effective 9/1/2004</b> |               |               |              |
| Employee (Plan 2)   | 0.00%         | 0.00%         | 0.00%        |
| Employer  | 0.03%         | 0.05%         | 0.03%        |
| <b>Costs (in Millions):</b>                               |               |               |              |
| <b>2004-2005<sup>1</sup></b>                              |               |               |              |
| <b>State:</b>   |               |               |              |
| General Fund  | \$ 0.3        | \$ 1.3        | \$0.2        |
| Non-General Fund  | 0.7           | 0.0           | \$0.0        |
| <b>Total State</b>  | <b>\$ 1.0</b> | <b>\$ 1.3</b> | <b>\$0.2</b> |
| Local Government  | \$ 0.9        | \$ 0.2        | \$0.1        |

<sup>1</sup> The UAAL basic rate was set to zero by the legislature for 2003-2005. This does not apply to future supplemental rate increases.

|                      | <u>PERS</u>    | <u>TRS</u>     | <u>SERS</u>   |
|----------------------|----------------|----------------|---------------|
| <b>2005-2007</b>     |                |                |               |
| <b>State:</b>        |                |                |               |
| General Fund         | \$ 0.9         | \$ 3.5         | \$ 0.6        |
| Non-General Fund     | <u>1.7</u>     | <u>0.0</u>     | <u>\$ 0.0</u> |
| <b>Total State</b>   | <b>\$ 2.6</b>  | <b>\$ 3.5</b>  | <b>\$ 0.6</b> |
| Local Government     | \$ 2.3         | \$ 0.6         | \$ 0.5        |
| <br><b>2004-2029</b> |                |                |               |
| <b>State:</b>        |                |                |               |
| General Fund         | \$ 16.0        | \$ 54.4        | \$ 7.8        |
| Non-General Fund     | <u>27.1</u>    | <u>0.0</u>     | <u>\$ 0.0</u> |
| <b>Total State</b>   | <b>\$ 43.1</b> | <b>\$ 54.4</b> | <b>\$ 7.8</b> |
| Local Government     | \$ 38.5        | \$ 10.9        | \$ 6.7        |

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Public Employees' Retirement System and Teachers' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:  
  
None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Unfunded Actuarial Accrued Liability (UAAL):** The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

# Age 66 COLA

1        AN ACT Relating to public employees' retirement system, plan 1 and  
2 teachers' retirement system, plan 1 age and retirement requirements for  
3 receipt of the annual increase amount; amending RCW 41.40.197 and  
4 41.32.489; and providing an effective date.

5        BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6        **Sec. 1.** RCW 41.40.197 and 1995 c 345 s 5 are each amended to read  
7 as follows:

8        (1) Beginning July 1, 1995, and annually thereafter, the retirement  
9 allowance of a person meeting the requirements of this section shall be  
10 increased by the annual increase amount.

11        (2) The following persons shall be eligible for the benefit  
12 provided in subsection (1) of this section:

13        (a) A beneficiary who has received a retirement allowance for at  
14 least one year by July 1st in the calendar year in which the annual  
15 increase is given and has attained at least age sixty-six by ((July  
16 1st)) December 31st in the calendar year in which the annual increase  
17 is given; or

18        (b) A beneficiary whose retirement allowance is lower than the  
19 minimum benefit provided under RCW 41.40.1984.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.40.198; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.40.325.

(4) If otherwise eligible, those receiving an annual adjustment under RCW 41.40.188(1)(c) shall be eligible for the annual increase adjustment in addition to the benefit that would have been received absent this section.

(5) Those receiving a benefit under RCW 41.40.220(1), or a survivor of a disabled member under RCW 41.44.170(5) shall be eligible for the benefit provided by this section.

(6) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this postretirement adjustment not granted prior to that time.

**Sec. 2.** RCW 41.32.489 and 1995 c 345 s 2 are each amended to read as follows:

(1) Beginning July 1, 1995, and annually thereafter, the retirement allowance of a person meeting the requirements of this section shall be increased by the annual increase amount.

(2) The following persons shall be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary who has received a retirement allowance for at least one year by July 1st in the calendar year in which the annual increase is given and has attained at least age sixty-six by (~~July 1st~~) December 31st in the calendar year in which the annual increase is given; or

(b) A beneficiary whose retirement allowance is lower than the minimum benefit provided under RCW 41.32.4851.

(3) The following persons shall also be eligible for the benefit provided in subsection (1) of this section:

(a) A beneficiary receiving the minimum benefit on June 30, 1995, under RCW 41.32.485; or

(b) A recipient of a survivor benefit on June 30, 1995, which has been increased by RCW 41.32.575.



1       (4) If otherwise eligible, those receiving an annual adjustment  
2 under RCW 41.32.530(1)(d) shall be eligible for the annual increase  
3 adjustment in addition to the benefit that would have been received  
4 absent this section.

5       (5) Those receiving a temporary disability benefit under RCW  
6 41.32.540 shall not be eligible for the benefit provided by this  
7 section.

8       (6) The legislature reserves the right to amend or repeal this  
9 section in the future and no member or beneficiary has a contractual  
10 right to receive this postretirement adjustment not granted prior to  
11 that time.

12       NEW SECTION.   **Sec. 3.** This act takes effect July 1, 2004.

--- END ---

# Select Committee on Pension Policy

## Plan 3 Vesting

*(November 10, 2003)*

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### **Issue**

Reducing the required length of service for vesting in PERS 3, SERS 3, and TRS 3 from 10 years to five years.

### **Staff**

Robert Wm. Baker (360) 586-9237

### **Members Impacted**

As of the most recent valuation, nearly 48,600 plan 3 members had less than 10 years of service or were not vested in plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members wouldn't be affected by this bill if they would quit with between 5 to 10 years of service and before they earned 12 months of service after age 54.

### **Current Situation**

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

### **History**

SHB 1298 was introduced in the 2003 legislative session. The bill would have shortened the vesting period in the Plans 3 from 10 years to 5 years. The bill passed the House. The bill was not heard in the Senate.

### **Policy Analysis**

While the 10 year vesting period for the Plans 3 is the longest among the open plans administered by Washington State, compared to other plans in other states it is not unusual. Numerous state and municipal retirement plans use a 10 year vesting period. In the latest survey from the Public Pension Coordinating Council, covering 276 public retirement plans, a total of 96 plans had vesting requirements of 10 years or more. Over 40 of those plans were administered by twenty-five states or territories, in addition to Washington. In comparison, 132 plans had vesting requirements of 5 years or less.

#### *Why 10?*

When the Plans 3 were on the drawing board, one of the concerns was the small defined benefit a member would receive if they earned only a modest amount of service credit before full retirement. It was felt that the 10% of average final compensation (AFC) a plan 2 member would be eligible to receive upon vesting (5 years  $\times$  2% per year) would set the standard for a minimum defined benefit. Thus, setting the vesting period in the plans 3 to 10 years guaranteed vested members 10% of their AFC as a minimum defined benefit (10 years  $\times$  1% per year).

#### *Other States*

While the 10 year vesting period for the Plans 3 is the longest among the open plans administered by Washington State, numerous state and municipal retirement plans use a 10 year vesting period. In the latest survey from the Public Pension Coordinating Council, covering 276 public retirement plans, 96 plans had vesting requirements of 10 years or more. In comparison, 132 plans had vesting requirements of 5 years or less. See attachment.

### **Bill Draft**

See attachment

### **Fiscal Note (Draft)**

See attachment

# Active Members and Vesting Requirements by Plan

Source: Public Pension Coordinating Council Survey 2002 (2000-2001 data)

| ID#   | PLAN NAME  | Members | Vesting Requirement                                       |
|-------|--|---------|---|
| 0376G | West Virginia Teacher's Defined Contribution Plan                                    | 19,000  | 1/3 after 6 years; 2/3 after 9 years; 100% after 12 years |
| 0020A | PARK EMPLOYEES & RET. BOARD EMPLOYEES ANNUITY AND BENEFIT FUND OF CHICAGO            | 3,639   | 10 YEARS  |
| 0247A | OAKLAND POLICE & FIRE RETIREMENT FUND  | 161     | 10 YEARS  |
| 0283A | City Pension Fund for Firefighters and Police Officers in the City of Pembroke Pines | 364     | 10 years  |
| 0314C | BISMARCK FIREFIGHTERS RELIEF ASSOCIATION   | 62      | 10 YEARS  |
| 0376D | West Virginia State Police Retirement Plan□□(Trooper Plan B)                         | 323     | 10 years  |
| 0497B | Macon Water Authority Employee Pension Plan  | 205     | 10 years  |
| 0672A | New York City Pension Fund -- Subchapter 2   | 11,477  | 10 years  |
| 0022A | Dukes County Contributory Retirement Plan  | 932     | 10 years at age 55  |
| 0083A | OKLAHOMA TEACHERS' RETIREMENT SYSTEM   | 83,024  | 10 YEARS OF OKLAHOMA SERVICE                              |
| 0005C | RETIREMENT SYSTEMS OF ALABAMA TEACHERS' PLAN   | 126,558 | 10 YEARS OF SERVICE                                       |
| 0010A | TEACHERS' RETIREMENT SYSTEM OF LA - REGULAR EMPLOYEES                                | 87,631  | 10 YEARS OF SERVICE                                       |
| 0010B | TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN B                             | 2,115   | 10 YEARS OF SERVICE                                       |
| 0010C | TEACHERS' RET. SYSTEM OF LA - SCHOOL FOOD SERVICE PLAN A                             | 1,067   | 10 YEARS OF SERVICE                                       |
| 0038A | RETIREMENT SYSTEM FOR SWORN POLICE PERSONNEL   | 107     | 10 YEARS OF SERVICE                                       |
| 0015A | CONNECTICUT TEACHERS' RETIREMENT SYSTEM  | 46,500  | 10 YEARS OF SERVICE                                       |
| 0016A | PLYMOUTH COUNTY RETIREMENT ASSOCIATION   | 9,098   | 10 YEARS OF SERVICE                                       |
| 0017A | MIAMI FIRE FIGHTERS' AND POLICE OFFICERS' RETIREMENT TRUST                           | 1,587   | 10 YEARS OF SERVICE                                       |
| 0024A | STERLING HEIGHTS POLICE AND FIRE RETIREMENT PLAN                                     | 261     | 10 YEARS OF SERVICE                                       |
| 0064B | EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - PUBLIC SCHOOL                              | 32,864  | 10 YEARS OF SERVICE                                       |
| 0064C | EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - JUDICIAL                                   | 416     | 10 YEARS OF SERVICE                                       |
| 0004A | TEXAS MUNICIPAL RETIREMENT SYSTEM  | 86,203  | 10 YEARS OF SERVICE                                       |
| 0005A | RETIREMENT SYSTEMS OF ALABAMA EMPLOYEES  | 75,734  | 10 YEARS OF SERVICE                                       |
| 0064A | EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - GENERAL                                    | 72,176  | 10 YEARS OF SERVICE                                       |
| 0067A | TEACHERS' PENSION AND ANNUITY FUND OF NEW JERSEY                                     | 134,199 | 10 YEARS OF SERVICE                                       |
| 0068A | POLICE AND FIREMEN'S RETIREMENT SYSTEM OF NEW JERSEY                                 | 42,430  | 10 YEARS OF SERVICE                                       |
| 0069A | PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEW JERSEY                                    | 277,441 | 10 YEARS OF SERVICE                                       |
| 0146E | LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN E: GENERAL                           | 31,088  | 10 YEARS OF SERVICE                                       |
| 0071A | LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM   | 69,680  | 10 YEARS OF SERVICE                                       |
| 0087A | NEW HAMPSHIRE RETIREMENT SYSTEM - GENERAL PLAN/EMPLOYEES                             | 20,262  | 10 YEARS OF SERVICE                                       |
| 0087C | NEW HAMPSHIRE RETIREMENT SYSTEM - POLICE PLAN  | 3,254   | 10 YEARS OF SERVICE                                       |
| 0087D | NEW HAMPSHIRE RETIREMENT SYSTEM - FIREFIGHTERS PLAN                                  | 1,269   | 10 YEARS OF SERVICE                                       |
| 0120A | CITY OF BOCA RATON GENERAL EMPLOYEES' TRUST  | 628     | 10 YEARS OF SERVICE                                       |
| 0131A | MWRD RETIREMENT FUND   | 2,084   | 10 years of service                                       |
| 0148A | TEACHERS RETIREMENT SYSTEM OF GEORGIA  | 191,908 | 10 YEARS OF SERVICE                                       |
| 0154B | NORTH DAKOTA HIGHWAY PATROL RETIREMENT PLAN  | 122     | 10 YEARS OF SERVICE                                       |
| 0156B | WICHITA POLICE AND FIRE RETIREMENT SYSTEM  | 993     | 10 YEARS OF SERVICE                                       |
| 0161A | INDIANA STATE TEACHERS' RETIREMENT PLAN  | 77,870  | 10 YEARS OF SERVICE                                       |
| 0163A | CHICOPEE RETIREMENT SYSTEM   | 1,140   | 10 YEARS OF SERVICE                                       |
| 0168A | FLORIDA RETIREMENT SYSTEM  | 597,823 | 10 YEARS OF SERVICE                                       |
| 0181A | MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM                                  | 312,699 | 10 YEARS OF SERVICE                                       |
| 0182A | MICHIGAN STATE POLICE RETIREMENT SYSTEM  | 2,210   | 10 YEARS OF SERVICE                                       |
| 0185A | MICHIGAN STATE EMPLOYEES' RETIREMENT SYSTEM  | 47,778  | 10 YEARS OF SERVICE                                       |
| 0193A | KANSAS PUBLIC EMPLOYEES RETIREMENT PLAN  | 142,870 | 10 YEARS OF SERVICE                                       |
| 0223A | CITY OF ALPENA - GENERAL   | 48      | 10 YEARS OF SERVICE                                       |
| 0224A | LA COUNTY METRO TRANSIT AUTHORITY - UTU RIP  | 3,944   | 10 YEARS OF SERVICE                                       |
| 0224B | LA COUNTY METRO TRANSIT AUTHORITY - MAINTENANCE EMPLOYEES                            | 2,023   | 10 YEARS OF SERVICE                                       |
| 0224C | LA COUNTY METRO TRANSIT AUTHORITY - TCU RIP  | 697     | 10 YEARS OF SERVICE                                       |
| 0226A | CITY OF MANISTEE EMPLOYEES RETIREMENT SYSTEM   | 62      | 10 YEARS OF SERVICE                                       |
| 0255A | OKLAHOMA POLICE PENSION AND RETIREMENT PLAN  | 3,778   | 10 YEARS OF SERVICE                                       |

|       |   |         |   |
|-------|---|---------|---|
| 0269A | KANSAS CITY (MO) FIREFIGHTERS' PENSION SYSTEM                                       | 761     | 10 YEARS OF SERVICE   |
| 0293A | CITY OF MILFORD - BENEFIT PLAN I  | 700     | 10 YEARS OF SERVICE   |
| 0314A | CITY OF BISMARCK CITY PENSION PLAN  | 307     | 10 YEARS OF SERVICE   |
| 0314B | CITY OF BISMARCK POLICE PENSION PLAN  | 143     | 10 YEARS OF SERVICE   |
| 0335A | LYNN HAVEN POLICE PENSION PLAN  | 27      | 10 YEARS OF SERVICE   |
| 0337A | LYNN HAVEN GENERAL EMPLOYEE PENSION PLAN  | 74      | 10 YEARS OF SERVICE   |
| 0340A | A.S.G GENERAL EMPLOYEES PLAN  | 4,050   | 10 YEARS OF SERVICE   |
| 0372A | EMPLOYEES RETIREMENT SYSTEM OF RHODE ISLAND   | 26,738  | 10 YEARS OF SERVICE   |
| 0372B | MUNICIPAL EMPLOYEES RETIREMENT SYSTEM   | 6,983   | 10 YEARS OF SERVICE   |
| 0372C | STATE POLICE RETIREMENT BENEFITS TRUST  | 130     | 10 YEARS OF SERVICE   |
| 0381A | CITY OF ALAMEDA POLICE AND FIRE RETIREMENT PLAN 1079 (CLOSED TO NEW MEMBERS)        | 0       | 10 YEARS OF SERVICE   |
| 0381B | CITY OF ALAMEDA POLICE & FIRE PLAN 1082 (CLOSED TO NEW MEMBERS)                     | 0       | 10 YEARS OF SERVICE   |
| 0388A | TOWN OF AVON POLICE RETIREMENT PLAN   | 25      | 10 YEARS OF SERVICE   |
| 0406A | ROSEVILLE CITY EMPLOYEE'S RETIREMENT PLAN   | 308     | 10 YEARS OF SERVICE   |
| 0413A | CITY OF CADILLAC POLICEMEN AND FIREMENT RETIREMENT SYSTEM                           | 29      | 10 YEARS OF SERVICE   |
| 0414A | CITY OF BIRMINGHAM (MI) EMPLOYEES RETIREMENT SYSTEM                                 | 197     | 10 YEARS OF SERVICE   |
| 0423A | STATE POLICE RETIREMENT SYSTEM OF NEW JERSEY  | 2,623   | 10 YEARS OF SERVICE   |
| 0425A | PRISON OFFICERS' PENSION FUND OF NEW JERSEY   | 0       | 10 YEARS OF SERVICE   |
| 0437A | CITY OF WHEELING EMPLOYEES' RETIREMENT AND BENEFIT FUND                             | 240     | 10 YEARS OF SERVICE   |
| 0465A | LONG BEACH TRANSIT PENSION PLAN - SALARIED EMPLOYEES                                | 117     | 10 YEARS OF SERVICE   |
| 0786A | VIRGIN ISLANDS GOVERNMENT EMPLOYEES' RETIREMENT PLAN                                | 16,861  | 10 YEARS OF SERVICE   |
| 0072A | ARKANSAS TEACHERS' RETIREMENT SYSTEM  | 58,528  | 10 YEARS OF SERVICE (7/1/98 -5 YEARS)                                     |
| 0278A | CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM *                                    | 715,105 | 10 YEARS OF SERVICE FOR TIER 2/5 YEARS SERVICE FOR TIER 1                 |
| 0121A | PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM                                     | 112,044 | 10 YEARS OF SERVICE OR 3 YEARS AT AGE 60                                  |
| 0235B | NEBRASKA PERS STATE PATROL RETIREMENT PLAN  | 386     | 10 YEARS OF SERVICE, SCHEDULE OF 20% PER YEAR FROM 6-10 YRS               |
| 0057C | WYOMING PAID FIREMEN'S PLAN   | 282     | 10 YEARS OF SERVICE FOR PLAN A; 4 YRS FOR PLAN B                          |
| 0195H | MONTANA VOLUNTEER FIREFIGHTERS COMPENSATION ACT                                     | 2,537   | 10 YRS  |
| 0677A | Springfield Police & Fire Retirement System   | 500     | 10 YRS  |
| 0569A | City of Kingsford Police and Firemen Retirement System                              | 20      | 10 yrs service  |
| 0174I | Washington Teachers' Retirement System -- Plan 3                                    | 35,284  | age 65 with at least 10 years of service                                  |
| 0619A | Holyoke Contributory Retirement System  | 1,407   | 10 yrs srv/age 55 20 yrs srv/any age                                      |
| 0124A | CITY OF MIAMI BEACH FIRE & POLICE SUPPLEMENTAL PLAN CITY PENSION FUND.              | 486     | 100% AFTER 10 YEARS   |
| 0497A | Macon Water Authority Employee Pension Plan   | 200     | vested with 10 yrs. service   |
| 0060B | STATE COLLEGE BOROUGH - POLICE PLAN   | 60      | 12 YEARS  |
| 0193B | KANSAS POLICE AND FIRE RETIREMENT SYSTEM  | 6,560   | 15 YEARS  |
| 0407D | FLINT EMPLOYEES RETIREMENT SYSTEM - MEDICAL CENTER                                  | 2,220   | 15 YEARS (10 AT AGE 55)   |
| 0174H | WASHINGTON JUDICIAL RETIREMENT SYSTEM   | 38      | 15 YEARS OF SERVICE   |
| 0418A | POLICE RETIREMENT SYSTEM OF KANSAS CITY, MISSOURI                                   | 1,263   | 15 YEARS OF SERVICE   |
| 0376A | West Virginia Judges Retirement System (JRS)  | 52      | 16 years service  |
| 0183B | State of Michigan Defined Contribution Retirement Plan                              | 234     | 2 years = 50% , 3 years = 75%, 4 yrs = 100%                               |
| 0185B | State of Michigan Defined Contribution Retirement Plan                              | 12,635  | 2 YOS = 50%, 3 YOS = 75%, 4 YOS = 100%                                    |
| 0009A | THE POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO                                 | 13,858  | 20 YEARS  |
| 0019A | OHIO STATE HIGHWAY PATROL RETIREMENT PLAN   | 1,545   | 20 YEARS  |
| 0759A | HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND                                    | 3,276   | 20 YEARS  |
| 0372D | JUDICIAL RETIREMENT BENEFITS TRUST  | 29      | 20 YEARS AGE 65, OR 15 YEARS AGE 75                                       |
| 0025A | CLAIR T. SINGERMEN EMPLOYEE RETIREMENT SYSTEM                                       | 374     | 20 YEARS AND AGE 55   |
| 0092A | FIRE AND POLICE PENSION FUND, SAN ANTONIO   | 3,500   | 20 YEARS OF SERVICE   |
| 0190A | TEXAS COUNTY AND DISTRICT RETIREMENT PLAN   | 90,633  | 8, 10, OR 12 YEARS, AT PARTICIPATING EMPLOYER'S ELECTION                  |
| 0386A | COLORADO COUNTY OFFICIALS & EMPLOYEES RET. ASSOC. PLANS                             | 15,000  | IMMEDIATE; 5 YR; 10 YR-AS ADOPTED BY COUNTIES, MUNICI., & SPEC. DISTRICTS |
| 0043A | MN STATE RETIREMENT SYSTEM GENERAL EMPLOYEES' PLAN                                  | 47,920  | 3 YEARS   |
| 0043B | MN STATE RETIREMENT SYSTEM STATE TROOPERS' RETIREMENT PLAN                          | 830     | 3 YEARS   |
| 0043C | MN STATE RETIREMENT SYSTEM CORRECTIONAL EMPLOYEES' PLAN                             | 2,882   | 3 YEARS   |
| 0133A | MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - COORDINATED PLAN                           | 135,560 | 3 YEARS   |
| 0133B | MN PUBLIC EMPLOYEES' RETIREMENT ASSOC. - POLICE & FIRE PLAN                         | 9,627   | 3 YEARS   |
| 0462B | Employees' Retirement System of Montgomery County (DC Plan) Retirement Savings Plan | 2,544   | 3 YEARS   |
| 0405A | MINNESOTA TEACHERS RETIREMENT ASSOCIATION   | 70,508  | 3 YEARS OF ALLOWABLE SERVICE  |

|       |  |         |                              |
|-------|--|---------|------------------------------|
| 0023A | BURLINGTON EMPLOYEES' RET. SYSTEM FOR POLICE AND FIRE                              | 165     | 3 YEARS OF SERVICE           |
| 0023B | BURLINGTON EMPLOYEES' RET. SYSTEM FOR GENERAL EMPLOYEES                            | 534     | 3 YEARS OF SERVICE           |
| 0055A | NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT   | 10,025  | 3 YEARS OF SERVICE           |
| 0178A | SOUTH DAKOTA RETIREMENT SYSTEM   | 34,180  | 3 YEARS OF SERVICE           |
| 0006A | PERS OF MISSISSIPPI GENERAL PLAN   | 151,790 | 4 YEARS                      |
| 0057D | WYOMING PUBLIC EMPLOYEES' SYSTEM   | 31,492  | 4 YEARS                      |
| 0165E | UTAH FIREFIGHTER'S RETIREMENT SYSTEM   | 1,452   | 4 YEARS                      |
| 0165A | UTAH PUBLIC EMPLOYEES' CONTRIBUTORY RETIREMENT SYSTEM                              | 3,972   | 4 YEARS OF SERVICE           |
| 0165B | UTAH PUBLIC EMPLOYEES' NON-CONTRIBUTORY RETIREMENT SYSTEM                          | 81,894  | 4 YEARS OF SERVICE           |
| 0165C | UTAH PUBLIC SAFETY PLAN  | 6,839   | 4 YEARS OF SERVICE           |
| 0165F | UTAH GOVERNORS AND LEGISLATIVE PENSION PLAN  | 88      | 4 YEARS OF SERVICE           |
| 0452A | Municipal Fire & Police Retirement System of Iowa                                  | 3,843   | 4 years of service           |
| 0278B | CALIFORNIA LEGISLATORS' RETIREMENT SYSTEM  | 28      | 4 YEARS OF SERVICE CREDIT    |
| 0066A | EMPLOYEES' RETIREMENT SYSTEM OF TEXAS  | 152,167 | 5 YEARS                      |
| 0376C | West Virginia Public Safety Death, Disability and Retirement Plan (Trooper Plan A) | 360     | 5 years                      |
| 0211A | MENDOCINO COUNTY ERA   | 1,347   | 5 YEARS                      |
| 0278C | JUDGES' RETIREMENT SYSTEM I (JRS I)  | 1,091   | 5 YEARS                      |
| 0376E | West Virginia Teacher's Retirement System (TRS)                                    | 25,278  | 5 years                      |
| 0376F | West Virginia Public Employees Retirement System (PERS)                            | 33,976  | 5 years contributory service |
| 0013A | PA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM                                      | 234,210 | 5 YEARS OF SERVICE           |
| 0043D | MN STATE RETIREMENT SYSTEM JUDGES' RETIREMENT PLAN                                 | 282     | 5 YEARS OF SERVICE           |
| 0048B | KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - NON HAZARDOUS                       | 77,419  | 5 YEARS OF SERVICE           |
| 0048C | KENTUCKY EMPLOYEES' RETIRMENT SYSTEM - HAZARDOUS                                   | 4,007   | 5 YEARS OF SERVICE           |
| 0036A | MISSOURI LOCAL GOVERNMENT EMPLOYEES' RETIREMENT PLAN                               | 28,491  | 5 YEARS OF SERVICE           |
| 0001A | PERS OF NEVADA GENERAL EMPLOYEES' PLAN   | 71,924  | 5 YEARS OF SERVICE           |
| 0001B | PERS OF NEVADA POLICE/FIRE EMPLOYEES' PLAN   | 8,910   | 5 YEARS OF SERVICE           |
| 0003A | SOUTH CAROLINA RETIREMENT SYSTEM - GENERAL PLAN                                    | 204,710 | 5 YEARS OF SERVICE           |
| 0003B | SOUTH CAROLINA RETIREMENT SYSTEM - POLICE OFFICERS' PLAN                           | 24,827  | 5 YEARS OF SERVICE           |
| 0005B | RETIREMENT SYSTEMS OF ALABAMA JUDICIAL PLAN  | 351     | 5 YEARS OF SERVICE           |
| 0048D | KENTUCKY STATE POLICE RETIREMENT SYSTEM  | 1,023   | 5 YEARS OF SERVICE           |
| 0048E | KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM - HAZARDOUS                           | 7,951   | 5 YEARS OF SERVICE           |
| 0058A | CHATHAM COUNTH EMPLOYEES' RETIREMENT PLAN  | 1,613   | 5 YEARS OF SERVICE           |
| 0060A | STATE COLLEGE BOROUGH - GENERAL PLAN   | 126     | 5 YEARS OF SERVICE           |
| 0062A | PORTLAND FIRE AND POLICE DISABILITY AND RETIREMENT FUND                            | 1,546   | 5 YEARS OF SERVICE           |
| 0147A | PERS OF IDAHO - GENERAL MEMBERS  | 55,297  | 5 YEARS OF SERVICE           |
| 0147B | PERS OF IDAHO - POLICE/FIRE MEMBERS  | 5,091   | 5 YEARS OF SERVICE           |
| 0195G | MONTANA FIREFIGHTERS UNIFIED RETIREMENT SYSTEM                                     | 419     | 5 YEARS OF SERVICE           |
| 0376B | West Virginia Deputy Sheriff's Retirement System (DSRS)                            | 468     | 5 years of service           |
| 0070A | TACOMA EMPLOYEES' RETIREMENT SYSTEM  | 2,814   | 5 YEARS OF SERVICE           |
| 0075A | Defined Benefit Plan for City Employees  | 6,655   | 5 YEARS OF SERVICE           |
| 0075B | City of Cincinnati Employees Retirement System                                     | 6,655   | 5 YEARS OF SERVICE           |
| 0079A | OHIO SCHOOL EMPLOYEES' RETIREMENT SYSTEM   | 113,811 | 5 YEARS OF SERVICE           |
| 0095A | FT. LAUDERDALE GENERAL EMPLOYEES RETIREMENT SYSTEM                                 | 1,363   | 5 YEARS OF SERVICE           |
| 0096A | TEACHER RETIREMENT SYSTEM OF TEXAS   | 0       | 5 YEARS OF SERVICE           |
| 0097A | LONG BEACH TRANSIT PENSION PLAN - CONTRACT EMPLOYEES                               | 495     | 5 YEARS OF SERVICE           |
| 0104A | TENNESSEE CONSOLIDATED RETIREMENT SYSTEM   | 190,344 | 5 YEARS OF SERVICE           |
| 0107A | CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM DEFINED BENEFIT PLAN                  | 385,530 | 5 YEARS OF SERVICE           |
| 0109A | TUCSON SUPPLEMENTAL RETIREMENT SYSTEM  | 3,484   | 5 YEARS OF SERVICE           |
| 0111A | PUBLIC SCHOOL TEACHERS' PENSION & RETIREMENT FUND OF CHICAGO                       | 35,400  | 5 YEARS OF SERVICE           |
| 0113A | VIRGINIA RETIREMENT SYSTEM   | 286,234 | 5 YEARS OF SERVICE           |
| 0125A | PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO                               | 162,106 | 5 YEARS OF SERVICE           |
| 0126A | FAIRFAX COUNTY UNIFORMED RETIREMENT SYSTEM   | 1,570   | 5 YEARS OF SERVICE           |
| 0127A | FAIRFAX COUNTY SUPPLEMENTAL RETIREMENT SYSTEM                                      | 13,044  | 5 YEARS OF SERVICE           |
| 0128A | FAIRFAX COUNTY POLICE OFFICERS' RETIREMENT SYSTEM                                  | 1,115   | 5 YEARS OF SERVICE           |
| 0137A | NEW YORK STATE TEACHERS' RETIREMENT SYSTEM   | 224,986 | 5 YEARS OF SERVICE           |
| 0138A | MISSOURI STATE EMPLOYEES' RETIREMENT PLAN  | 57,774  | 5 YEARS OF SERVICE           |

|       |   |         |                    |
|-------|---|---------|--------------------|
| 0138D | MISSOURI STATE EMPLOYEES' PLAN 2000   | 0       | 5 years of service |
| 0143A | ST LOUIS COUNTY LIBRARY DISTRICT EMPLOYEES' PENSION PLAN                    | 316     | 5 YEARS OF SERVICE |
| 0144A | OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM                                   | 158,988 | 5 YEARS OF SERVICE |
| 0146A | LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOC. PLAN A GENERAL               | 7,560   | 5 YEARS OF SERVICE |
| 0147C | PERS OF IDAHO - FIREFIGHTERS RETIREMENT FUND (CLOSED PLAN)                  | 129     | 5 YEARS OF SERVICE |
| 0154A | NORTH DAKOTA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - GENERAL                  | 17,231  | 5 YEARS OF SERVICE |
| 0159A | FORT WORTH EMPLOYEES' RETIREMENT FUND                                       | 5,423   | 5 YEARS OF SERVICE |
| 0174A | WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN I                     | 28,167  | 5 YEARS OF SERVICE |
| 0174B | WASHINGTON PUBLIC EMPLOYEES' RETIREMENT SYSTEM - PLAN II                    | 168,213 | 5 YEARS OF SERVICE |
| 0174C | WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN I                             | 18,737  | 5 YEARS OF SERVICE |
| 0174D | WASHINGTON TEACHERS' RETIREMENT SYSTEM - PLAN II/III                        | 8,663   | 5 YEARS OF SERVICE |
| 0174E | WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN I                        | 1,743   | 5 YEARS OF SERVICE |
| 0174F | WASHINGTON LAW ENFORCEMENT AND FIRE FIGHTERS' PLAN II                       | 12,713  | 5 YEARS OF SERVICE |
| 0174G | WASHINGTON STATE PATROL RETIREMENT SYSTEM                                   | 968     | 5 YEARS OF SERVICE |
| 0177A | PUBLIC SCHOOL RETIREMENT SYSTEM OF THE CITY OF ST. LOUIS                    | 6,100   | 5 YEARS OF SERVICE |
| 0194A | CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT PLAN - GENERAL                    | 7,436   | 5 YEARS OF SERVICE |
| 0194B | CONTRA COSTA COUNTY RETIREMENT SYSTEM - POLICE AND FIRE                     | 1,674   | 5 YEARS OF SERVICE |
| 0195A | MONTANA PUBLIC EMPLOYEES' RETIREMENT SYSTEM                                 | 28,091  | 5 YEARS OF SERVICE |
| 0195B | MONTANA GAME WARDENS AND PEACE OFFICERS RETIREMENT SYSTEM                   | 494     | 5 YEARS OF SERVICE |
| 0195C | MONTANA JUDGES RETIREMENT SYSTEM  | 46      | 5 YEARS OF SERVICE |
| 0195D | MONTANA HIGHWAY PATROL OFFICERS RETIREMENT SYSTEM                           | 190     | 5 YEARS OF SERVICE |
| 0195E | MONTANA SHERIFFS RETIREMENT SYSTEM  | 611     | 5 YEARS OF SERVICE |
| 0195F | MONTANA MUNICIPAL POLICE OFFICERS RETIREMENT SYSTEM                         | 571     | 5 YEARS OF SERVICE |
| 0202A | NEW YORK STATE & LOCAL EMPLOYEES' RET. SYSTEM - GENERAL                     | 720,223 | 5 YEARS OF SERVICE |
| 0202B | NEW YORK STATE & LOCAL POLICE AND FIRE RETIREMENT SYSTEM                    | 31,955  | 5 YEARS OF SERVICE |
| 0206A | MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION                              | 2,968   | 5 YEARS OF SERVICE |
| 0221A | EAST BAY MUNICIPAL UTILITY DISTRICT   | 1,853   | 5 YEARS OF SERVICE |
| 0224D | LA COUNTY METRO TRANSIT AUTH. - NON-CONTRACT EMPLOYEE RIP                   | 427     | 5 YEARS OF SERVICE |
| 0231A | AURORA GENERAL EMPLOYEES RETIREMENT PLAN                                    | 1,493   | 5 YEARS OF SERVICE |
| 0236A | NEBRASKA DEFINED CONTRIBUTION PLANS - STATE EMPLOYEES                       | 14,689  | 5 YEARS OF SERVICE |
| 0236B | NEBRASKA DEFINED CONTRIBUTION PLANS - COUNTY EMPLOYEES                      | 6,872   | 5 YEARS OF SERVICE |
| 0245A | STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS                            | 72,365  | 5 YEARS OF SERVICE |
| 0245B | STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (DC PLAN)                  | 5,680   | 5 YEARS OF SERVICE |
| 0277A | CITY OF ST. LOUIS EMPLOYEE RETIREMENT PLAN                                  | 5,948   | 5 YEARS OF SERVICE |
| 0278D | CALIFORNIA JUDGES RETIREMENT FUND (II)                                      | 445     | 5 YEARS OF SERVICE |
| 0291A | MILWAUKEE COUNTY EMPLOYEES' RETIREMENT PLAN                                 | 7,246   | 5 YEARS OF SERVICE |
| 0303A | ALASKA PUBLIC EMPLOYEES' RETIREMENT SYSTEM                                  | 0       | 5 YEARS OF SERVICE |
| 0315A | LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM                               | 24,234  | 5 YEARS OF SERVICE |
| 0321A | SAN JOAQUIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION                        | 5,231   | 5 YEARS OF SERVICE |
| 0325A | CITY OF GERMANTOWN EMPLOYEE RETIREMENT PLAN                                 | 377     | 5 YEARS OF SERVICE |
| 0353A | DENVER EMPLOYEES RETIREMENT PLAN  | 10,821  | 5 YEARS OF SERVICE |
| 0368A | Denver Public Schools Retirement System                                     | 7,182   | 5 YEARS OF SERVICE |
| 0373A | PERA OF NEW MEXICO  | 54,647  | 5 YEARS OF SERVICE |
| 0374A | STATE EMPLOYEES RETIREMENT SYSTEM OF MARYLAND                               | 178,456 | 5 YEARS OF SERVICE |
| 0379A | Kern County Employees' Retirement Association                               | 7,109   | 5 years of service |
| 0387A | CITY OF ENGLEWOOD NON-EMERGENCY PENSION PLAN                                | 231     | 5 YEARS OF SERVICE |
| 0387B | CITY OF ENGLEWOOD POLICE PENSION PLAN                                       | 11      | 5 YEARS OF SERVICE |
| 0387C | CITY OF ENGLEWOOD FIREFIGHTER'S PENSION PLAN                                | 10      | 5 YEARS OF SERVICE |
| 0388B | TOWN OF AVON PUBLIC WORKS RETIREMENT PLAN                                   | 14      | 5 YEARS OF SERVICE |
| 0388C | TOWN OF AVON NON-ORGANIZED RETIREMENT PLAN                                  | 32      | 5 YEARS OF SERVICE |
| 0388D | TOWN OF AVON BOARD OF EDUCATION RETIREMENT PLAN                             | 38      | 5 YEARS OF SERVICE |
| 0388E | Town of Avon 401(a) f.t.Employees' Plan                                     | 26      | 5 YEARS OF SERVICE |
| 0419A | CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF K.C., MO. | 583     | 5 YEARS OF SERVICE |
| 0422A | MONTANA TEACHERS' RETIREMENT SYSTEM   | 18,205  | 5 YEARS OF SERVICE |
| 0424A | JUDICIAL RETIREMENT SYSTEM OF NEW JERSEY                                    | 414     | 5 YEARS OF SERVICE |
| 0449A | EMPLOYEES' RETIREMENT SYSTEM OF TULSA COUNTY, OKLAHOMA                      | 1,389   | 5 YEARS OF SERVICE |

|       |   |         |   |
|-------|---|---------|---|
| 0453A | CITY OF ARNOLD (MO) POLICE PENSION PLAN                             | 46      | 5 YEARS OF SERVICE  |
| 0454A | SAN BERNARDINO COUNTY EMPLOYEES RETIREMENT ASSOCIATION              | 15,858  | 5 YEARS OF SERVICE  |
| 0462A | Employees' Retirement System of Montgomery County                   | 6,396   | 5 YEARS OF SERVICE  |
| 0737A | Town of Suffield Pension Plan                                       | 138     | 5 years of service  |
| 0146D | LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN D: GENERAL          | 31,300  | 5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP                                     |
| 0146F | LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN A SAFETY            | 2,005   | 5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP                                     |
| 0146G | LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B SAFETY            | 9,259   | 5 YEARS OF SERVICE AND 10 YEARS OF MEMBERSHIP                                     |
| 0146B | LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN B: GENERAL          | 556     | 5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP  |
| 0146C | LOS ANGELES COUNTY EMPLOYEES' RET. ASSOC., PLAN C: GENERAL          | 413     | 5 YEARS OF SERVICE, 10 YEARS OF MEMBERSHIP  |
| 0063A | TEACHERS' RETIREMENT SYSTEMS OF ILLINOIS                            | 144,975 | 5 YEARS OF SERVICE; ALSO SINGLE-SUM BENEFIT PAYABLE AT 65 IF < 5 YEARS            |
| 0034A | ARKANSAS LOCAL POLICE & FIRE RETIREMENT SYSTEM                      | 7,983   | 5 YRS   |
| 0700A | Defined Benefit - Douglas County Employees Retirement Trust         | 0       | 5 yrs   |
| 0542A | City of St Petersburg Employee Retirement System                    | 1,796   | 5 yrs of service  |
| 0160A | VIA METROPOLITAN TRANSIT RETIREMENT PLAN                            | 1,409   | 50% VESTED AT 5 YEARS, GRADED TO 100% AT 10 YEARS OF SERVICE                      |
| 0043E | MN STATE RETIREMENT SYSTEM LEGISLATORS' RETIREMENT PLAN             | 173     | 6 YEARS   |
| 0057A | WYOMING WARDEN AND PATROL RETIREMENT PLAN                           | 260     | 6 YEARS   |
| 0165D | UTAH JUDGES' RETIREMENT SYSTEM                                      | 104     | 6 YEARS OF SERVICE  |
| 0310A | Iowa Judicial Retirement Fund                                       | 194     | 6 years of service  |
| 0007C | ILLINOIS JUDGES' RETIREMENT SYSTEM                                  | 908     | 6 YEARS OF SERVICE (AGE 62); 10 YEARS OF SERVICE (AGE 60); 2 YEARS OF SERVICE (AC |
| 0145A | PERS OF OHIO - STATE AND LOCAL DIVISION                             | 392,530 | 60 CONTRIBUTING MONTHS  |
| 0145B | PERS OF OHIO - LAW ENFORCEMENT DIVISION                             | 7,389   | 60 CONTRIBUTING MONTHS  |
| 0156A | WICHITA EMPLOYEES' RETIREMENT PLAN                                  | 1,018   | 7 YEARS OF SERVICE  |
| 0156C | Wichita Employees' Retirement System Plan 3                         | 878     | 7 years of service  |
| 0217A | LANSING BOARD OF WATER AND LIGHT EMPLOYEES'DEFINED BENEFIT PLAN     | 121     | 7 YEARS OF SERVICE  |
| 0217B | LANSING BOARD OF WATER AND LIGHT DEFINED CONTRIBUTION PENSION PLANS | 636     | 7 YEARS OF SERVICE  |
| 0542B | City of St Petersburg Firefighters Retirement System                | 298     | 7 years of service  |
| 0542C | City of St Petersburg Police Officers Retirement System             | 457     | 7 years of service  |
| 0371A | SHELBY COUNTY RETIREMENT SYSTEM                                     | 6,271   | 7 1/2 YEARS OF SERVICE  |
| 0007A | ILLINOIS STATE EMPLOYEES' RETIREMENT SYSTEM                         | 80,676  | 8 YEARS   |
| 0037A | KALAMAZOO COUNTY EMPLOYEES' RETIREMENT PLAN                         | 1,064   | 8 YEARS   |
| 0043F | MN STATE RET. SYSTEM ELECTIVE OFFICERS' RET. PLAN                   | 0       | 8 YEARS   |
| 0064D | EMPLOYEES' RETIREMENT SYSTEM OF GEORGIA - LEGISLATIVE               | 210     | 8 YEARS   |
| 0110A | ILLINOIS MUNICIPAL RETIREMENT FUND                                  | 157,816 | 8 YEARS   |
| 0169A | OKLAHOMA PUBLIC EMPLOYEES RETIREMENT SYSTEM                         | 42,886  | 8 YEARS   |
| 0173A | WAYNE COUNTY EMPLOYEES' RETIREMENT SYSTEM                           | 5,407   | 8 YEARS   |
| 0183A | MICHIGAN JUDGES RETIREMENT SYSTEM                                   | 399     | 8 YEARS   |
| 0007B | ILLINOIS GENERAL ASSEMBLY RETIREMENT SYSTEM                         | 181     | 8 YEARS (AGE 55); 4 YEARS (AGE 62)  |
| 0289A | GOGEBIC COUNTY EMPLOYEES RETIREMENT PLAN                            | 375     | 8 YEARS OF SERVICE  |
| 0304A | ALASKA TEACHERS' RETIREMENT SYSTEM                                  | 9,164   | 8 YEARS OF SERVICE  |
| 0329A | CITY OF GRAND RAPIDS GENERAL EMPLOYEES' RETIREMENT SYSTEM           | 1,176   | 8 YEARS OF SERVICE  |
| 0451A | ELK COUNTY EMPLOYEES' RETIREMENT PLAN                               | 132     | 8 YEARS OF SERVICE  |
| 0474A | VILLAGE OF MOUNT PROSPECT-POLICE                                    | 82      | 8 YEARS OF SERVICE  |
| 0195I | MONTANA PUBLIC EMPLOYEES' RETIREMENT DEFERRED COMPENSATION          | 7,048   | ACCOUNT BALANCES ARE FULLY VESTED AT TIME OF DEPOSIT                              |
| 0087B | NEW HAMPSHIRE RETIREMENT SYSTEM - TEACHERS' PLAN                    | 14,114  | AGE 60 W/ ANY YEARS   |
| 0235A | NEBRASKA PERS SCHOOL PLAN   | 34,718  | AGE 65 WITH 5 YEARS CREDITED SERVICE; AGE 65 REGARDLESS OF SERVICE                |
| 0426A | CONSOLIDATED POLICE & FIREMEN'S PENSION FUND OF NEW JERSEY (CPFPF)  | 43,331  | CLOSED PLAN, NO ACTIVE MEMBERS  |
| 0098A | WISCONSIN RETIREMENT SYSTEM   | 258,195 | IMMEDIATE VESTING   |
| 0107B | CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM CASH BALANCE PROGRAM   | 9,552   | IMMEDIATE VESTING   |
| 0138B | MISSOURI ADMINISTRATIVE LAW JUDGES' RETIREMENT PLAN                 | 52      | IMMEDIATE VESTING   |
| 0138C | MISSOURI REGULAR JUDGES' RETIREMENT PLAN                            | 375     | IMMEDIATE VESTING   |
| 0235C | NEBRASKA PERS JUDGES' RETIREMENT PLAN                               | 157     | IMMEDIATE VESTING   |
| 0505A | VILLAGE OF BOLINGBROOK POLICE PENSION PLAN                          | 86      | IMMEDIATE VESTING   |
| 0542D | City of St Petersburg   | 100     | immediate vesting   |
| 0057B | WYOMING VOLUNTEER FIREMEN'S PLAN                                    | 2,118   | MUST BE VOLUNTEER UNTIL AGE 60  |
| 0090A | Charlotte Firefighters' Retirement Plan                             | 0       |   |
| 0534A | Miami Shores General Employees Retirement Plan                      | 0       |   |



|       |   |           |
|-------|---|-----------|
| 0650A | Fairfax County Water Authority Retirement Plan                          | 0         |
| 0655A | Spokane Employees' Retirement Plan                                      | 0         |
|       | Number of plans with vesting requirements of 10 or more years           | 96        |
|       | Active members of plans with vesting requirements of 10 or more years   | 3,662,540 |
|       | Number of plans with vesting requirements of less than 10 years         | 172       |
|       | Active members of plans with vesting requirements of less than 10 years | 5,988,342 |
|       | Number of plans with vesting requirements of 5 years or less            | 132       |
|       | Active members of plans with vesting requirements of 5 years or less    | 4,908,400 |
|       | * About 50,000 members in Tier 2  |           |

# FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

**Office of the State Actuary**

**035**

**11/12/04**

**Z-0874.1/04**

## SUMMARY OF BILL:

This bill impacts the Teachers Retirement System (TRS), School Employee's Retirement System (SERS), and Public Employee's Retirement System (PERS) Plans 3 by lowering the vesting period for the defined benefit portion of these plans from ten years to five.

Effective Date: 90 days after passage.

## CURRENT SITUATION:

New Plan 3 members of TRS, SERS, and PERS are vested in the defined benefit portion of their Plan after ten years of service, or after five years of service if 12 months of that service is earned after attaining age 54. Plan 3 members are immediately vested in the defined contribution side of their Plan. Those who transferred from Plan 2 to Plan 3 were automatically vested if they had five years of service in Plan 2 as of July 1, 1996, September 1, 2000 and June 1, 2003, the initial transfer dates for TRS, SERS and PERS respectively.

## MEMBERS IMPACTED:

The counts of active vested and non-vested members are shown below. Not included in these counts are terminated non-vested members who would add to the total should they become re-employed. As of the most recent valuation, nearly 48,600 plan 3 members had less than 10 years of service or were not vested in plan 2 on July 1, 1996 in TRS, September 1, 2000 in SERS or June 1, 2003 in PERS, or did not have 5 years of service including 12 months after age 54. Any of these non-vested members would be affected by this bill if they were to quit with between 5 to 10 years of service and before they earned 12 months of service after age 54.

| System / Plan | Vested | Non-Vested |
|---------------|--------|------------|
| PERS 3        | 10,455 | 5,054      |
| TRS 3         | 17,154 | 28,644     |
| SERS 3        | 12,025 | 14,896     |

## FISCAL IMPACT:

### Actuarial Determinations:

The bill will impact the actuarial funding of the TRS, SERS and PERS system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

| <i>(Dollars in Millions)</i>  |                 | Current    | Increase     | Total      |
|---|-----------------|------------|--------------|------------|
| <b>Actuarial Present Value of Projected Benefits</b>                                    |                 |            |              |            |
| (The Value of the Total Commitment to all Current Members)                              |                 |            |              |            |
|   | <b>PERS 2/3</b> | \$ 13,093  | \$ 3         | \$ 13,096  |
|   | <b>TRS 2/3</b>  | \$ 4,422   | \$ 11        | \$ 4,433   |
|   | <b>SERS 2/3</b> | \$ 1,804   | \$ 7         | \$ 1,811   |
| <b>Unfunded Actuarial Accrued Liability</b>   |                 | NA         | NA           | NA         |
| (The Portion of the Plan 1 Liability that is Amortized at 2024)                         |                 |            |              |            |
| <b>Unfunded Liability (PBO)</b>   |                 |            |              |            |
| (The Value of the Total Commitment to all Current Members Attributable to Past Service) |                 |            |              |            |
|   | <b>PERS 2/3</b> | \$ (3,924) | \$ 1         | \$ (3,923) |
|   | <b>TRS 2/3</b>  | \$ (1,715) | \$ 5         | \$ (1,710) |
|   | <b>SERS 2/3</b> | \$ (620)   | \$ 3         | \$ (617)   |
| <b>Required Contribution Rate (Employer)</b>  |                 |            |              |            |
|   | <b>PERS 2/3</b> | 3.78%      | <b>0.01%</b> | 3.79%      |
|   | <b>TRS 2/3</b>  | 3.19%      | <b>0.03%</b> | 3.22%      |
|   | <b>SERS 2/3</b> | 3.64%      | <b>0.05%</b> | 3.69%      |

*(The PERS rate of 3.78% is composed of the employer normal cost rate of 2.63% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 1.15%. This bill would increase the normal cost rate from 2.63% to 2.64%, the UAAL rate would remain unchanged)*

*(The TRS rate of 3.19% is composed of the employer normal cost rate of 1.98% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 1.21%. This bill would increase the normal cost rate from 1.98% to 2.01%, the UAAL rate would remain unchanged)*

*(The SERS rate of 3.64% is composed of the employer normal cost rate of 2.49% and a UAAL rate or "Plan 2/3 Employer for Plan 1" rate of 1.15%. This bill would increase the normal cost rate from 2.49% to 2.54%, the UAAL rate would remain unchanged)*

### Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

|  |             |            |             |
|--|-------------|------------|-------------|
| Effective September 1, 2004            | <u>PERS</u> | <u>TRS</u> | <u>SERS</u> |
| <b>Increase in Contribution Rates:</b> |             |            |             |
| Employee                               | 0.01%       | 0.03%      | 0.05%       |
| Employer State                         | 0.01%       | 0.03%      | 0.05%       |
| <b>Costs (in Millions):</b>            |             |            |             |
| <b>2004-2005</b>                       |             |            |             |
| <b>State:</b>                          |             |            |             |
| General Fund                           | \$ 0.1      | \$ 0.7     | \$ 0.3      |
| Non-General Fund                       | 0.2         | 0.0        | 0.0         |
| <b>Total State</b>                     | <b>0.3</b>  | <b>0.7</b> | <b>0.3</b>  |
| Local Government                       | 0.3         | 0.1        | 0.3         |

Effective September 1, 2004

**2005-2007**

**State:**

|                    |            |            |            |
|--------------------|------------|------------|------------|
| General Fund       | \$ 0.3     | \$ 2.0     | \$ 0.8     |
| Non-General Fund   | <u>0.5</u> | <u>0.0</u> | <u>0.0</u> |
| <b>Total State</b> | <b>0.8</b> | <b>2.0</b> | <b>0.8</b> |
| Local Government   | 0.7        | 0.4        | 0.7        |

**2004-2029**

**State:**

|                    |             |             |             |
|--------------------|-------------|-------------|-------------|
| General Fund       | \$ 8.1      | \$ 47.2     | \$ 19.4     |
| Non-General Fund   | <u>13.3</u> | <u>0.0</u>  | <u>0.0</u>  |
| <b>Total State</b> | <b>21.4</b> | <b>47.2</b> | <b>19.4</b> |
| Local Government   | 18.8        | 9.5         | 17.2        |

**State Actuary's Comments:**

This bill does not modify the employee/employer level of cost sharing as defined in the actuarial funding chapter - Chapter 41.45 RCW. As a result, the cost of this plan 3 benefit enhancement is shared equally among plan 2/3 employers and plan 2 employees.

## STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2002 actuarial valuation report of the Teachers Retirement System, School Employee's Retirement System, and Public Employee's Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following: None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2004 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

## GLOSSARY OF ACTUARIAL TERMS:

**Actuarial Present Value:** The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

**Projected Benefits:** Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

**Normal Cost:** Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

**Unfunded Actuarial Accrued Liability (UAAL):** The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

**Pension Benefit Obligation (PBO):** The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

**Unfunded Liability (Unfunded PBO):** The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by Plan assets.

## Plan 3 Vesting

1        AN ACT Relating to vesting after five years of service in the  
2        defined benefit portion of the public employees' retirement system, the  
3        school employees' retirement system, and the teachers' retirement  
4        system plan 3; and amending RCW 41.32.875, 41.35.680, and 41.40.820.

5        BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6        **Sec. 1.** RCW 41.32.875 and 2000 c 247 s 903 are each amended to  
7        read as follows:

8        (1) NORMAL RETIREMENT. Any member who is at least age sixty-five  
9        and who has(~~+~~

10        ~~(a))~~ completed (~~(ten))~~ five service credit years(~~(+or~~

11        ~~(b) Completed five service credit years, including twelve service~~  
12        ~~credit months after attaining age fifty four; or~~

13        ~~(c))~~ or completed five service credit years by July 1, 1996, under  
14        plan 2 and who transferred to plan 3 under RCW 41.32.817(~~(+))~~  
15        shall be eligible to retire and to receive a retirement allowance  
16        computed according to the provisions of RCW 41.32.840.

17        (2) EARLY RETIREMENT. Any member who has attained at least age  
18        fifty-five and has completed at least ten years of service shall be  
19        eligible to retire and to receive a retirement allowance computed

1 according to the provisions of RCW 41.32.840, except that a member  
2 retiring pursuant to this subsection shall have the retirement  
3 allowance actuarially reduced to reflect the difference in the number  
4 of years between age at retirement and the attainment of age sixty-  
5 five.

6 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at  
7 least thirty service credit years and has attained age fifty-five shall  
8 be eligible to retire and to receive a retirement allowance computed  
9 according to the provisions of RCW 41.32.840, except that a member  
10 retiring pursuant to this subsection shall have the retirement  
11 allowance reduced by three percent per year to reflect the difference  
12 in the number of years between age at retirement and the attainment of  
13 age sixty-five.

14 **Sec. 2.** RCW 41.35.680 and 2000 c 247 s 906 are each amended to  
15 read as follows:

16 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five  
17 and who has((÷

18 ~~(a))~~ completed ~~((ten))~~ five service credit years~~((÷or~~

19 ~~(b) Completed five service credit years, including twelve service~~  
20 ~~credit months after attaining age fifty four; or~~

21 ~~(c))~~ or completed five service credit years by September 1, 2000,  
22 under the public employees' retirement system plan 2 and who  
23 transferred to plan 3 under RCW 41.35.510((÷))  
24 shall be eligible to retire and to receive a retirement allowance  
25 computed according to the provisions of RCW 41.35.620.

26 (2) EARLY RETIREMENT. Any member who has attained at least age  
27 fifty-five and has completed at least ten years of service shall be  
28 eligible to retire and to receive a retirement allowance computed  
29 according to the provisions of RCW 41.35.620, except that a member  
30 retiring pursuant to this subsection shall have the retirement  
31 allowance actuarially reduced to reflect the difference in the number  
32 of years between age at retirement and the attainment of age sixty-  
33 five.

34 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at  
35 least thirty service credit years and has attained age fifty-five shall  
36 be eligible to retire and to receive a retirement allowance computed  
37 according to the provisions of RCW 41.35.620, except that a member

1 retiring pursuant to this subsection shall have the retirement  
2 allowance reduced by three percent per year to reflect the difference  
3 in the number of years between age at retirement and the attainment of  
4 age sixty-five.

5 **Sec. 3.** RCW 41.40.820 and 2000 c 247 s 309 are each amended to  
6 read as follows:

7 (1) NORMAL RETIREMENT. Any member who is at least age sixty-five  
8 and who has((÷

9 ~~(a)) completed ((ten)) five service credit years((÷or~~  
10 ~~(b) Completed five service credit years, including twelve service~~  
11 ~~credit months after attaining age fifty-four; or~~

12 ~~(c)) or completed five service credit years by the transfer~~  
13 payment date specified in RCW 41.40.795, under the public employees'  
14 retirement system plan 2 and who transferred to plan 3 under RCW  
15 41.40.795((÷))

16 shall be eligible to retire and to receive a retirement allowance  
17 computed according to the provisions of RCW 41.40.790.

18 (2) EARLY RETIREMENT. Any member who has attained at least age  
19 fifty-five and has completed at least ten years of service shall be  
20 eligible to retire and to receive a retirement allowance computed  
21 according to the provisions of RCW 41.40.790, except that a member  
22 retiring pursuant to this subsection shall have the retirement  
23 allowance actuarially reduced to reflect the difference in the number  
24 of years between age at retirement and the attainment of age sixty-  
25 five.

26 (3) ALTERNATE EARLY RETIREMENT. Any member who has completed at  
27 least thirty service credit years and has attained age fifty-five shall  
28 be eligible to retire and to receive a retirement allowance computed  
29 according to the provisions of RCW 41.40.790, except that a member  
30 retiring pursuant to this subsection shall have the retirement  
31 allowance reduced by three percent per year to reflect the difference  
32 in the number of years between age at retirement and the attainment of  
33 age sixty-five.

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